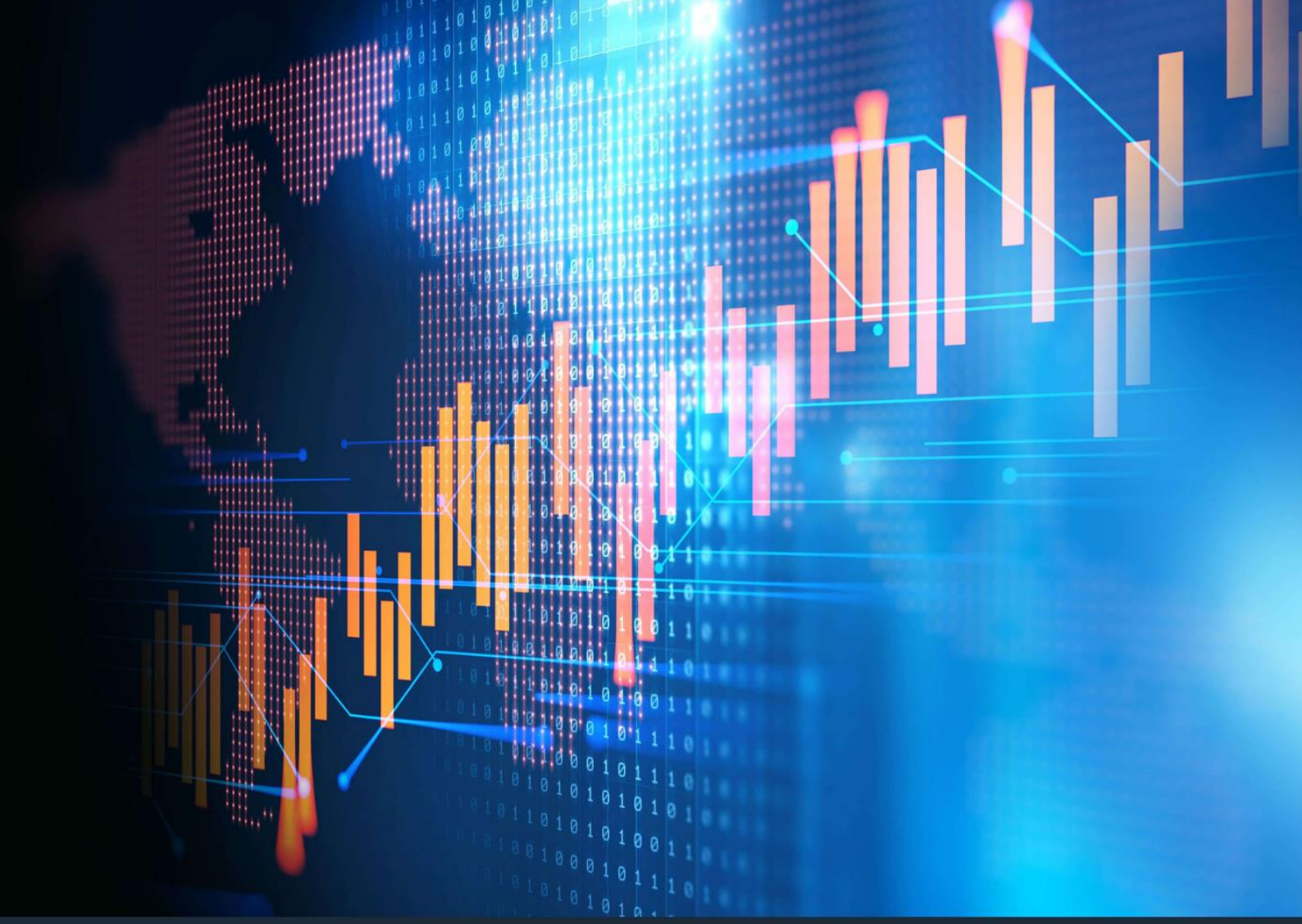

Q1FY21 Results & Conference Call Highlights of 52 Stocks

Made by Karan Patel

SMART SYNC SERVICES

SMART SYNC SERVICES

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Who We Are

We are a SEBI Registered (*INA000007881*) Investment Advisory firm. We passionately believe that the people of our country must know about the importance of financial literacy and financial freedom and we will do everything possible to realize this vision.

We at **Smart Sync Investment Advisory Services** (SSIAS) are guided by the words of wisdom from the father of Investment Management, **Benjamin Graham —**

> *"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return."*

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ASSET MANAGEMENT

HDFC AMC

Financial Results & Highlights

Brief Company Introduction

HDFC Asset Management Company Limited (HDFC AMC) is Investment Manager to HDFC Mutual Fund, the largest mutual fund in the country. HDFC AMC has a diversified asset class mix across Equity and Fixed Income/Others. It also has a countrywide network of branches along with a diversified distribution network comprising Banks, Independent Financial Advisors and National Distributors.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	491	553	-11.21%	450	9.11%
PBT	380	430	-11.63%	330	15.15%
PAT	302	292	3.42%	250	20.80%

Detailed Results

1. Revenues for the quarter were down 11% YoY at Rs 490 Cr.
2. PBT in Q1 is down 11% YoY and PAT is up 3% YoY.
3. QAAUM for the company was at Rs 3562 billion which was down 2% YoY. Closing AUM was flat YoY at Rs 3575 Cr. Market share in both was at 14.5% and 14% respectively.
4. The breakup of closing AUM for HDFC by segment is as follows:
    1. Equity: 39.4% vs industry average of 38.3%
    2. Debt: 29.5% vs industry average of 32%
    3. Liquid: 28.9% vs industry average of 19.4%
    4. Others: 2.2% vs industry average of 10.3%
5. Market share in Actively Managed Equity Oriented AUM for HDFC is 14.5%. Actively managed QAAUM saw a fall of 21% YoY while Closing AUM fell 18% YoY.
6. The number of individual accounts grew 2% YoY while individual MAAUM fell 12% YoY.
7. The company also maintained a long tenure SIP book with 82% of order book having flows over 5 years and 70% having flows over 10 years.
8. The distribution of total AUM across different channels saw the following changes:
    1. Direct: 49% vs 39.2% a year ago
    2. HDFC Bank: 5.2% vs 7.7% a year ago

3. Banks: 9.9% vs 13.3% a year ago
4. IFAs: 23.4% vs 27.5% a year ago
5. National Distributors: 17.8% vs 20% a year ago.

9. The company also maintained its position as 2nd biggest player in B30 markets with an 11.7% market share. The company has a total of 221 branches with 145 in B30 cities and 65,000+ empanelled distribution partners.
10. The company is now seeing 91.4% of transactions by electronic means.

Investor Conference Call Highlights

1. The company has enhanced its digital capabilities with Whatsapp transaction services and video KYC.
2. The management has stated that the reason for the fall in the share of equity AUM of total AUM is mainly the big mark to market fall which has affected equity AUM most severely.
3. The company has added 2 new fund managers into its roster.
4. The company already has products in most major categories and thus cannot introduce new products in these existing segments. But it is looking to expand into thematic funds and into the dividend yield category where it doesn't have any offering yet.
5. Out of the 221 branches, only 140+ branches are open currently with very few employees performing critical functions only.
6. The great shift seen by the company is new registrations through HDFC MF Online which has seen new user addition doubling QoQ.
7. The management has admitted that SIP renewals and new SIPs have gone down for the company and the industry due to the ongoing pandemic.
8. The company has also seen a fall in employee costs with senior employees taking pay cuts of up to 25%. This has led to a saving of Rs 8.5-9 Cr as compared to last year.
9. The main reason for the decline in revenues despite the almost flat AUM is the deterioration of the product mix which has seen fall in equities which is the highest yielding segment.
10. The management is aiming for operating cost savings of Rs 35 to 40 Cr in FY21.
11. The company has invested the surplus profit after paying dividends into its own mutual funds and this figure (Rs 900 Cr) is at 33% of investment AUM currently. Thus other income has also gone up on this. The company's exposure to Essel promoters has also gone up from Rs 36 Cr to Rs 77 Cr which is also another contributor to the rise in other income.
12. The company had seen goo inflows in April which tapered in May followed by outflows in June.
13. The management has stated that overall transaction turnover has been high since the start of COVID-19 but delivery has been low indicating a lot of short-term trading speculation. The management believes that at a time like this long term investment into equities is coming in the form of investment into mutual funds.

14. The company has seen a yield of around 6% in its debt investments in the past year.
15. The company did see redemptions in its credit risk funds book since the last week of April. The book has reduced from Rs 13,500 Cr at the time to Rs 6,300 Cr by the end of June. The company has turned conservative with this event and increased its AAA exposure in credit risk funds to 34-35% from 24-25% previously. Thus including cash, credit risk funds of the company now have close to 38-40% exposure to AAA assets and cash.
16. The yield gap between a AAA and credit risk fund with a 40% AAA is almost 400 bps. The management expects this gap to narrow as people come back to invest in normal credit risk funds.
17. The company doesn't have an active strategy to reduce TR as it would end up impacting profitability for the company.
18. The margins on different product groups have remained broadly the same. Only the margins on the debt have fallen due to the depletion of the credit risk funds which was a high margin in the debt segment.
19. The management has admitted that it doesn't have the capability to make a feeder fund for investing abroad directly and will partner with a global investment manager to tie up with for this product. The company will be approaching Standard Life with a proposal for this.

Analyst's View

HDFC AMC is the leading mutual fund house in India. It is the market leader in actively managed equity funds space and a trusted mutual fund provider for individual investors which is evident in their high individual account numbers and AUM. The company had a muted quarter due to a fall Equity AUM and the massive redemptions in credit risk funds. The company has done well to focus on cost savings and facilitating online registrations and transactions to cover for difficulties in physical transactions due to COVID-19. It is also good to see that the management has added 2 new portfolio managers to its roster and is also planning to establish a feeder fund for international investments thus opening up a new and highly sought after product segment. It remains to be seen how the COVID-19 situation will unravel and how it will continue to affect the investment sentiments in India. However, given the company's strong past track record and its leadership position in the industry, the medium and long term outlook for HDFC AMC remains intact.

Nippon Life India AM

Financial Results & Highlights

Brief Company Introduction

Nippon Life India Asset Management Limited (NAM India) is the asset manager of Nippon India Mutual Fund (NIMF). Nippon Life Insurance Company are the promoters of NAM India and currently hold 75 of its total issued and paid-up equity share capital while Reliance Capital holds 0.93% of shares in the company. Equity Shares of NAM India are listed on BSE Limited and National Stock Exchange of India Limited.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	314	343	-8.45%	142	121.13%
PBT	192	179	7.26%	37	418.92%
PAT	150	123	21.95%	12	1150.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	336	360	-6.67%	150	124.00%
PBT	200	181	10.50%	27	640.74%
PAT	156	126	23.81%	4	3800.00%

Detailed Results:

1. Revenues declined 6.67% YoY. Profits rose for the company with Q1 PAT rising 24% YoY.
2. As of 31st March 2020, AUM was at Rs 2,55,265 Cr or $34 billion.
3. Operating expenses were down 24% YoY in Q1.
4. NIMF added almost 220,000 folios in Q1 while ETF folios rose by over 117,000 which was more than the total number of investors added in the whole of FY20.
5. Total AUM as of 30th June 2020 was at Rs 2,73,701 Cr or $36.5 billion. Average AUM in Q1 was at Rs 1,80,061 Cr or $24 billion.
6. Equity assets grew to 38% of total AUM. Retail Assets were at Rs 44,429 Cr which 24% of total AUM vs an industry average of 19%.
7. B30 assets were at Rs 32,923 Cr accounting for 17.3% of overall MF AUM vs industry average of 15.4%.
8. Individual AUM was at Rs 91,211 Cr or $12.2 billion which accounted for 48% of MF AUM.
9. The company enjoyed a market share of 15% in ETF space with AUM of Rs 25,765 Cr.
10. As of March 31, 2020, NIMF has over 91 lakh investor folios. Out of these, over 34 lakh were SIP folios, with an annualized SIP book of approx. Rs 8,400 Cr or $1.1 billion.
11. Digital purchase transactions grew 43% QoQ and digital channel now contributes to 56% of total new purchases.

Investor Conference Call Details:

1. Since the transition in October 2019, NAM has gained more than 120 institutional investors per quarter. In addition, 75 new HNI and family offices and presently, 26 out of the top 100 corporates of India have started to reinvest in Nippon India Mutual Fund.
2. NIMF has one of the highest market shares of unique mutual fund investors in the industry at 29%.
3. New digital SIP registrations have grown 116%.
4. In Q1, the company launched Corporate Solutions Suite, a distant last full-spectrum digital asset for the institutional investor segment.
5. NIMF has a 76% share in ETF volumes on MSE and BSE.
6. As of June 2020, Nippon India AIF has raised commitments of INR 34 billion across all funds.
7. Direct channel contributed 52% of the mutual fund AUM. Of the distributed AUM, the share of IFAs was 55% and 76% of the distributed assets have been contributed by individual investors.
8. The employee expenses have declined 13% QoQ and are at Rs 72+ Cr. The management has stated that this level of employee expenses will be sustained in the future.
9. With the increase in digital business, the management is expecting the cost of operations to go down in the long term.
10. The overall realization is at 46 bps. The realization in equity is at 95-100 bps. The company shares around 50-70% of its TER with its distribution partners with 50% for IFAs and 70% for key partners like banks, etc.
11. The company's equity assets account for 70-75% of total fees.
12. The management has stated that the reason that the bank channel is low compared to competitors is that the IFA channel is significantly high and is more difficult to replicate for competitors.
13. The company has around 12% of its financial assets in equity and ETFs as seed capital.
14. The net reversal in MTM since Q4 has resulted in another income of Rs 99 Cr in Q1.
15. The management fees charged in both physical and digital transactions are the same but the difference comes in the physical cost of transacting.
16. Overall Liquid fund AUM was at Rs 35,000+ Cr while debt was at Rs 52,000+ Cr.
17. The company has only Rs 320 Cr in credit risk funds.
18. The Board had taken the decision to not invest in any security below AA rating to stay conservative in the future.
19. The company has seen redemptions in offshore funds from some institutional investors.
20. THE average SIP size in Q1 was at Rs 2200.
21. The debt and fixed deposits have contributed to 35-40% of other income while the rest is MTM from equity.
22. The management has stated that the company will be selling Indian investment products globally with the help of Nippon's global network and will also look to incorporate global practices into Indian operations. Some of these companies from Nippon's global network include TCW from the USA, DWS in EU and MLC in Australia.
23. The management has stressed on the fact that the AMC space is a volumes game where AUM needs to be rising and costs need to be kept low.
24. 16% of direct equity inflows for the company are through NAM India.
25. 16% of business is direct while 84% of the business through distributed assets.

Analyst Views:

Nippon India Life Asset Management is one of the leading asset managers in the country. The company has done well to bounce back after the rebranding last year. This was evident from the number of investor additions in Q1FY21 which exceeded the number of investors who joined in the whole of FY20. The company continues to have a good hold in the IFA space with this channel being the largest distribution channel for the company. It remains to be seen whether the company will be able to match the pace of growth of its prime competitor HDFC AMC in this space and whether it will be able to maintain its growth momentum going forward. Nonetheless, given the company's market positioning and its competitive advantage in the ETF and AIF space, Nippon Life India Asset Management is a must-watch stock for every investor interested in the AMC space.

AUTO & AUTO ANCILLARIES

Bajaj Auto

Financial Results & Highlights

Brief Company Introduction

Bajaj Auto Ltd has been one of the largest automobile players in India for a long time. They have been in operations since 1945. Bajaj Auto operates primarily in the entry level and premium segment motorcycles along with small and large three wheeler commercial vehicles segment. It is the largest three wheeler manufacturer and third largest motorcycle manufacturer in the world. They are now present in more than 70 countries around the world. Bajaj Auto also owns Force Motors and is a part owner of the popular Austrian motorcycle brand KTM.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3417	8197	-58.31%	7349	-53.50%
PBT	682	1579	-56.81%	1721	-60.37%
PAT	528	1126	-53.11%	1310	-59.69%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3417	8093	-57.78%	7243	-52.82%
PBT	549	1465	-62.53%	1765	-68.90%
PAT	396	1012	-60.87%	1354	-70.75%

Detailed Results:

- The revenues for the quarter were dismal with a fall of 58% YoY in both standalone and consolidated terms for Q1.
- Profits were also down with a fall in PAT of 53% and 61% YoY respectively in standalone and consolidated terms respectively.
- The volumes sold for the quarter stood at 443,103 units.
- The export volumes were at 251,840 units in Q1.
- The YoY changes in volumes for the quarter are as follows:
  - Domestic:

Domestic	Q1FY21
Motorcycles	-70%
CV	-94%
Total	-73%

- Exports:

Exports	Q1FY21
Motorcycles	-55%
CV	-52%
Total	-55%

- Total:

Total	Q1FY21
Motorcycles	-63%
CV	-74%
Total	-64%

- The domestic motorcycles industry declined 73% YoY in Q1 vs Bajaj decline of 70%.
- The overall share in the domestic motorcycle market grew close to 20.7% from 18.5% in FY20.
- In Q1FY21, CT sold 32,000 units. Platina sold over 45,000 units including Platina 110H.
- The recently launched Pulsar 125 sold over 32,000 units.
- Market share in the mileage segment was at 15.5% vs 14.3% in FY20.
- In the sports segment, the company continues to maintain its dominance. Pulsar, along with Avenger, sold over 69,000 units in Q1 with Pulsar 150 selling 49,000 units Market share in this segment rose to 59% vs 44.7% in FY20.
- In super sports segment, the company sold almost 6000 units with a market share of 8.8%
- KTM & Husqvarna sold over 3,400 units in Q1. RS200 & Dominar sold over 2,500 units.
- In the CV segment in Q1FY21, the company had a market share of 42.6%. The industry declined almost 91% in the quarter and Bajaj Auto suffered the most as the dominant player.
- In the RE brand, the company maintained a market share of 80%.
- In the MAXIMA brand, the company maintained a market share of 27%.
- In the Goods carrier segment, the company maintained a market share of 34%.
- In the international business segment, the company sold over 251,000 units.
- Africa declined 50% while South Asia & Middle East declined 63%. Latin America declined by 63% while ASEAN declined by 67%.
- The proportionate loss from KTM AG for the company in March Quarter FY21 was Rs 132 Cr.
- The company maintained surplus cash and cash equivalents at Rs 14232 Cr as of 30th June 2020.

Investor Conference Call Highlights

- Commodity prices have been adverse for the company and are not expected to provide any relief going forward.
- The management states that demand has come back to 75% in motorcycles in June.
- Most markets are now at 75% to 100% of demand in motorcycles and commercial vehicles are at 10% lower than motorcycles.
- The management states that Q2 should not see any price increases and motorcycle gross margins should improve as volumes come back to normal.
- The management expects the road to normalcy for 3 wheelers to take longer as it has been more severely impacted due to drop in ride-hailing and other major business areas for the industry division.
- The trend in 3 wheeler cargo vehicles is expected to be swift due to renewed demand for intracity movement of small cargo.
- The management does not expect any supply chain disruption as demand is slowly coming back and easing pressure on the supply chain.
- The company has seen 80-85% of demand in motorcycles in July.
- Motorcycle inventory levels are running at below 30 days.
- The overall margin profile has been kept buoyant by the good export margins.
- The company has indeed reduced is marketing and ad spend currently but the management assures that the company will indeed loosen its strings on advertising ahead of the demand curve as things return to normal.
- The management is satisfied with the decision to go with the electronic injection system as it reduces the dependence on the proprietary technology for pure fuel injection and decreases price sensitivity for the injection systems that have to be ordered from outside.
- The management has stated that electronic injection is far easier to service and maintain than fuel injection which makes it more convenient for the customer in the long run.
- The company's import content is <5% of requirements and it is mainly those things which are not available in India.
- The company has made a cost reduction of Rs 100 Cr per quarter other than a reduction in marketing and ad spend.
- The current utilization is at 65-70% of overall production capacity.
- The management expects demand from retail to come back swiftly as pent up demand rises driven by agribusiness led small urban areas.
- The management has reassured that there will not be any risk-sharing with Bajaj Finance but there indeed may be some cost-sharing in a product-focused way. The company will not become over-dependent on Bajaj Finance.
- The management has stated that it is difficult to gauge what the new normal level of demand will be since we are still in the middle of the pandemic and cannot accurately gauge how consumer behaviour will evolve in response.
- Around 95% of motorcycle dealerships are open while 85% of CV dealerships are open currently.
- The management is pleased that the quality of demand is not going down and there is no down-trading going on based on the sales figures. The compelling evidence for this is the emergence of Pulsar which is anchoring the company with 50% of total motorcycle sales. Even in the pulsar brand, the highest-selling one is the more expensive disc brake variant.
- The company expects to hit 10000 units in pro biking sales by September.

- The currency volatility issues plaguing the company in the previous quarter have calmed down considerably.
- The management remains satisfied with the current EBITDA margin of 14.3% in Q1 and remains focused on maintaining the bottom line and market share dominance for the company.

Analyst's View:

Bajaj Auto has been a long performing player in the automobile sector that has established itself as a dominant player in all the segments that it operates in both in India and abroad. Despite the expected decline in domestic business, the export business has helped mitigate the fall in performance for the company. Q1 was a dismal quarter for the company especially due to more than 68 days of manufacturing inactivity. The company did well to maintain its market dominance and increase market share in motorcycles despite the industry decline. The lockdown due to COVID-19 has hit the auto industry particularly hard and the company is no exception. But the company is expected to have managed better than its competitors mainly due to its performance in international markets. It remains to be seen how long will it take for the auto industry to revive from the triple threats of demand slowdown, BSVI price increases, and COVID-19 disruption. Nonetheless, given the company's position in export markets and its strong presence in all market segments in the two-wheeler market and three-wheeler markets, Bajaj Auto remains a pivotal auto sector stock to watch out for.

Balkrishna Industries

Financial Results & Highlights

Brief Company Introduction

Balkrishna Industries Limited (BKT) is a tire manufacturing company based in Mumbai, India. Balkrishna Industries manufactures off-highway tires used in specialist segments like mining, earthmoving, agriculture and gardening in five factories located in Aurangabad, Bhiwadi, Chopanki, Dombivali and Bhuj. In 2013, it was ranked 41st among the world's tire makers.

Balkrishna Industries is currently an OEM vendor for heavy equipment manufacturers like JCB, John Deere and CNH Industrial. The company currently enjoys 2% market share of the global off-the-road tire segment.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	962	1265	-23.95%	1424	-32.44%
PBT	162	254	-36.22%	339	-52.21%
PAT	122	176	-30.68%	257	-52.53%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	979	1273	-23.10%	1438	-31.92%
PBT	172	255	-32.55%	346	-50.29%
PAT	132	177	-25.42%	265	-50.19%

Detailed Results:

1. The revenue for the quarter declined 23% YoY in consolidated terms.
2. PBT was down 36% and 23% YoY in standalone and consolidated terms in Q1.
3. Consolidated PAT fell 25% YoY in the quarter.
4. Sales volumes for the quarter came in at 38,096 tons which were down 25% YoY.
5. The EBITDA margin improved 240 bps YoY to 26.7% in Q1.
6. Net forex gain for Q1 was at Rs 13 Cr vs Rs 24 Cr a year ago.
7. The company remains debt-free with current cash holding at Rs 1175 Cr as of 30th June 2020.
8. The previously guided CapEx programs are on track for the company.
9. The company announced an interim dividend of Rs 3 per share.

Investor Conference Call Highlights

1. The non-agriculture segment is moving slowly on account of low commodity prices and end-user demand while the agriculture segment is showing strong demand across all geographies.

2. The rise in EBITDA margin was mainly on account of lower absorption of fixed cost owing to lower production and sales.
3. The market share for BKT in India currently is 7% and it is steadily increasing in this segment.
4. Around 40-45% of domestic sales are from tractors.
5. The management remains confident of achieving flat revenues for the year. BKT will continue to maintain the percentage of spend in sponsorships and other promoting methods at current levels which is at 2-3% of sales.
6. Domestic growth was flat in Q1 while exports starting rising from June.
7. The management does not expect much change in RM prices going forward. It has also mentioned that there will no further pricing action in FY21.
8. Volumes produced for the quarter was at 41,576 tons.
9. The management expects the non-Agri segment to pick up as construction and mining activities resume across the world.
10. Volumes sold in the EU were at 20,000-21,000 tons while India has volumes of 9,400 tons. The USA saw volumes of 3000-4000 tons.
11. 65% of volumes for Agri tires while 32% were for OTR. The remaining 3% was for smaller sized tires.
12. OEM was at 27% while the replacement was at 70%.
13. EU Agri segment market share for BKT is at 12-15%. The same figure in the USA is at 7-10%.
14. The management is aspiring for BKT to improve in the non-Agri segment like mining, etc to reach its goal of 10% overall industry market share.
15. The company does not expect any import duty restriction to come into place for imported rubber.
16. There has been no change in channel inventory in Q1. The current channel inventory in the USA & EU is at 2-3 months.
17. Around 15% of carbon black output is being sold on the marketplace.
18. The company's medium-term target is to increase the proportion of sales from India from the current level of 20-22%.
19. The industry is widely expected to grow at a CAGR of 4-5%.
20. The management expects EBITDA margins to remain close to 28-30% in the year ahead.
21. There are currently no gaps in the distribution for BKT in India and it is able to maintain a Pan India network of SKUs.
22. The management has stated that it does not take any actions to set realizations and change in realizations is largely dependent on forex changes given no pricing action.
23. The company is currently facing no issues in the supply chain both for sourcing and dispatching.

24. The current prices are fully reflecting the softening in commodity prices.
25. The management has stated that the company has made good inroads in the mining sector in the USA and is getting repeat orders and rising market share in the sector. The current market share in this sector is at 2-3% which BKT hopes to increase to 5-6% in the next 2-3 years.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company has seen a tepid Q1 mainly due to the disruption in sales from COVID-19. It has however been able to increase EBITDA margins YoY. The addition of the carbon black plant is expected to bring about additional margin appreciation for the company bringing the guidance for FY21 at 28-31%. Although the company was hit by supply chain disruptions due to the lockdown it didn't hamper its sales in the EU & USA since the channel inventory here is at 2-3 months. It remains to be seen whether there are any other economic shocks to come from COVID-19 and whether the company's projections of rising demand from Agri and non-Agri sectors pans out as expected. Nonetheless, given the company's sustained margin performance, its resilient market share in a slow global market, and the rapid rise of the company in India, Balkrishna Industries is a good tire stock to watch out for.

Eicher Motors

Financial Results & Highlights

Brief Company Introduction

Eicher Motors Limited is an Indian manufacturer of motorcycles and commercial vehicles. Eicher is the parent company of Royal Enfield, a manufacturer of middleweight motorcycles. In addition to motorcycles, Eicher has a joint venture with Sweden's AB Volvo - Volvo Eicher Commercial Vehicles Limited (VECV).

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	884	2541	-65.21%	2326	-61.99%
PBT	16	708	-97.74%	489	-96.73%
PAT	12	498	-97.59%	346	-96.53%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	932	2502	-62.75%	2351	-60.36%
PBT	-51	663	-107.69%	447	-111.41%
PAT	-55	452	-112.17%	304	-118.09%

Detailed Results:

1. The company had a dismal quarter with a 63% fall in consolidated revenues and a negative PBT due to losses in VECV.
2. Volumes for Q1 was at 58,000 a change of 68% YoY.
3. EBITDA margins for Q1 shrank to 0.2%.
4. The company launched new variants of Bullet 350 & Classic 350.
5. The company added 38 new studio stores in the quarter bringing the total locations up to 1559.
6. The company still enjoys a market share of more than 90% in its segment of 250cc+ motorcycles and a market share of 29.6% in the 125+ cc category.
7. Export sales have risen from 96% YoY to 38700 units in FY20.
8. The number of international stores has risen to 82 stores in 21 countries and the company plans to bring this up to 100 by the end of FY21.
9. The total CV volumes sold in Q1 were at 2,129 units.
10. The market share of VECV in the domestic 3.5-15 ton segment is at 29.5%.
11. The market share in buses excluding exports increased to 35.6% from 15.3% a year ago.
12. The market share in the heavy-duty segment increased to 7%.
13. VECV saw a loss of Rs 120 Cr in the period.
14. VECV market including exports increased to 23.1% in Q1FY21 from 12.7% a year ago.
15. The company also announced an incoming stock split of 10 times to take place on 25th August 2020.

Investor Conference Call Details:

1. The company saw a good recovery in motorcycles since opening up but the demand for CVs remains weak.
2. The export market for Re was down 64% YoY and export volumes were at only 3,400 units in Q1.
3. The company added 5 exclusive stores and 32 multi-branded outlets in several countries in France, Brazil, Indonesia, Mexico, Germany, U.K., Australia, New Zealand, Colombia.
4. Digital engagement with customers has risen 3-4 times since COVID-19.
5. Interceptor was the best-selling motorcycle in the U.K. for the month of June in the whole industry.
6. The company acquired the entire business of Volvo Buses in India.
7. The management believes that this acquisition provides the company with the best portfolio in the country from heavy-duty and premium buses all the way to light, medium-duty and mass-market or value segment buses.
8. The company launched India's first 54-tonne gross combination weight 4×2 tractor-trailer. It also launched an all-new and wider Eicher Skyline bus, which introduces Volvo Group's engine platform.
9. All CVs sold after 22nd July will be 100% connected with advanced telematics and the company is offering a 2-year subscription to this telematics which the company provides and free uptime services.
10. All 9 units for VECV production have started working and are at utilization of 25% currently. The company plans to scale up production as demand comes back.
11. The management has stated that the capacity constraint for the company today is not in production but in the supply chain.
12. The company has crossed 100 outlets in the USA and has a small 2.5% market share here. The company is also looking to expand rapidly in emerging areas like APAC and LATAM while also looking to expand slowly in long shot areas like Africa. In the long term, the company's goal is to have at least 20% of sales from exports.
13. The gross margin for the company has been down largely due to a one-off incentive scheme which was put in post restart after lockdown.
14. As with all companies affected due to COVID-19. EML has also had the opportunity to look deep internally and work towards improving internal costs and efficiencies which are expected to enhance profitability in the long term according to the management.
15. The launch schedule for the company has been delayed from April to August or September and the company stands ready to ramp up production as soon as the supply chain issues get resolved.
16. The company will be going ahead with its planned launch schedule for the year from Q2 onwards.
17. The booking rate and inquiries are almost at pre-COVID levels. The majority of these are from smaller cities and towns while major cities are underperforming at the moment.

18. There is no debt incoming from the new Volvo Buses acquisition. VECV is seeing good interest in its BSVI offerings. All the BSVI cost increases have been passed on in all products of VECV.
19. The gap between booking and production is between 40,000 to 45,000 units at the moment.
20. The source of supply chain issues for the company and largely the industry were the lockdowns in key production corridors of Aurangabad, Pune and Chennai in the past month.
21. At present, around 90% of dealerships are open for the company.
22. The company does not see financing as a challenge for sales of its products.
23. Given no supply chain constraints, the management believes that the company can reach pre-COVID production levels within 2 weeks.
24. The management expects the recovery to be faster in export markets.

Analyst's View:

Eicher Motors has been one of the highest-rated auto companies in India. This was mainly on the back of their successful turnaround of Royal Enfield and the emergence of the mid-sized (250cc-750cc) motorcycle market. The company saw impressive industry outperformance in both the RE and VECV businesses despite the massive auto sector slowdown which was exacerbated by COVID-19. This is evident from the fact that despite revenue and volumes declines, both of these divisions have gained market share in their respective industry segments and declined less than their respective segments. The company has seen good recovery in demand which is evident from the number of inquiries & bookings coming back to pre-covid levels. The company still faces the major challenges plaguing the industry like how long will demand normalize for the auto industry and whether there any more disruptions in store in the future from COVID-19. It remains to be seen whether the company will be able to keep outperforming the industry and how its various initiatives like studio stores and Make Your Own platforms pan out in the future. Nonetheless, given its resilient performance in its various segments and the strong brand and industry position of the company, Eicher Motors remains a critical stock to watch out for every auto sector investor.

Minda Industries

Financial Results & Highlights

Brief Introduction:

Minda Industries is a supplier of automotive solutions to original equipment manufacturers. The Company offers a range of products across various verticals of auto components, such as switching systems, acoustic systems and alloy wheels, among others.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	232	846	-72.58%	774	-70.03%
PBT	-81	42	-292.86%	8*	-1112.50%
PAT	-53	32	-265.63%	5	-1160.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	421	1447	-70.91%	1355	-68.93%
PBT	-156	84	-285.71%	26^	-700.00%
PAT	-119	56	-312.50%	13	-1015.38%

*Includes an exceptional item of Rs (17.2) Cr

^ Includes exceptional item of Rs (8.9) Cr

Detailed Results:

1. The company had a devastating quarter with a revenue drop of 71% YoY and consolidated losses of Rs 119 Cr.
2. The EBITDA margins fell to -17.14% in Q1FY21 vs 11.96% a year ago. EBITDA for Q1 stood at Rs (71) Cr.
3. The revenue of all segments fell in the quarter.
4. Almost 83% of revenues were from domestic sources while 17% were from exports. In terms of channels, 84% of revenues were sourced from OEMs while 16% were from the replacement market.
5. The revenue share of various segments in Q1 is as follows:
    1. Switches: 30%
    2. Lighting: 29%
    3. Acoustics: 16%
    4. LMT: 6%

5. Others: 19%

6. The plants are now operating at 80% of pre-COVID levels.
7. The final NCLT hearing for a merger with Harita Seating Systems is scheduled for 24th August 2020.
8. The rights issue for the company has been announced for Rs 243 Cr. It will take place from 25th August to 8th September 2020.
9. The latest operational updates on the company's various segments are:
    1. Switches:
        1. 2W Switch: Nominated for oil temperature sensors Japanese 2W OEM.
        2. 4W: New Product: Roof top-mounted switches to a Japanese OEM.
    2. Lighting: Strong order wins and order pipeline in India backed by Technology from Delvis.
    3. Acoustics: Clarton Mexico has received orders from Ford for electronic horns. CH nominated for 0.3 million horns by large Korean OEM in India.
    4. LMT:
        1. New Customer: Large Korean OEM for LPDC wheel in their upcoming model.
        2. 2W alloy wheel plant expected to be commissioned in September 2020.
    5. Others:
        1. Smart Plug for TVS E Cute Electric Scooter.
        2. HTS sensor line has been commissioned, however other products are delayed due to the COVID pandemic.

Investor Conference Call Highlights

1. The production level in June end was close to 40%.
2. The overall production levels have since grown progressively to around 70% in July and around 80% in August of the pre-COVID levels.
3. 2Wheeler segment has so far done better than the 4Wheeler segment, backed by good harvest and direct benefit transfer by the government to Jan-Dhan account holders.
4. The production levels in August have reached around 85% of pre-COVID levels in Europe, 75% in Mexico, and around 60% in Asia.
5. The LPDC order from the Korean OEM is expected to have its production starting somewhere from the middle of next year.
6. The annual business opportunity here is around 75,000 wheels per year.
7. The sensor project has been delayed due to COVID-19 as equipment for the projects is supposed to come from China. There are 3 main parts of this project which are HTS (high-temperature sensor), cam & crank, and wheel speed sensor. The delay is of almost 6 months currently.
8. The guidance for additional revenue of Rs 300-400 Cr in the next 4 years remains intact. The management expects an additional revenue increase of at least Rs 100 Cr by FY22.
9. The main reason for the fall in LMT is the fact the consumer shift towards lower models which require steel wheels which have caused demand for alloy wheels to drop.

10. The company expects September's performance to exceed pre-COVID levels.
11. The company has gotten 3 businesses from DELVIS. Two of them are for LED tail lamps for Japanese OEMs and one is for headlamp from MSIL. The peak annual value to be captured here is greater than Rs 150 Cr.
12. The management expects ROKI to revive and turn green in August. TG is 4 wheeler heavy and is expected to do good on an annual basis. Losses in Onkyo are coming down. Kosei Minda remains a challenge in terms of customers.
13. There hasn't been any confirmation of any PLI schemes by Govt of India in sensors and auto equipment yet.
14. The management sees opportunity in 2wheeler alloy wheels from the China substitution phenomenon.
15. The management remains committed that India will remain the primary focus for the company. Once the company has anchor customers in India in any segment, only then will it look to expand outwards in other geographies.
16. The management sees RM costs coming down in the near future.
17. DELVIS revenue rate is Rs 250 Cr annually. For Q1, revenues from DELVIS were at Rs 20-30 Cr.
18. The company is looking to source almost 50% of its power from solar and reduce electricity costs going forward.
19. The management expects salaries for staff to reinstated to pre-COVID levels in the next 2 months.
20. The company has been looking to reduce finance costs by raising CP of 5-5.5%.
21. Inventories actually are lower than what they were compared to pre-COVID levels, thus increasing room for the market to absorb more than production before the festive season.
22. The management doesn't see any challenges from the supply side. The initial labour issues are also getting resolved with migrant labour slowly coming back.
23. The management remains confident of their decision to put in the new Aluminium alloy wheel line as around 65% of industry demand is imported thus highlighting a good opportunity for the company.
24. The company is now making around 3.5 to 4 million wheels. After the expansion, its capacity will be around 8 million which is still small compared to the industry demand for 24 million per year.
25. The utilization rate at the Gujarat plant was almost 75%.
26. The company is expected to move to the new tax regime innFY22 when all the MAT credit is exhausted.
27. RM imports stand at almost 50% for Minda Kosei. For all other units, this is at 15-17%.

Analyst Views:

Minda Industries has been one of the top auto ancillaries providers in the country. They have steadily expanded their product offerings such that their kit value is increasing year on year with the addition of newer products in the mix. The company has had a dismal quarter which was mostly due to plant shutdown during lockdown and production is expected to revive soon. Their foray into alloy wheels is expected to deliver good growth for the company in the future particularly considering the import substitution opportunity but the opportunity seems to be delayed due to COVID-19 along with the company's sensor project. The company has also managed to gain good orders for its Lighting business through its acquisition of DELVIS. It remains to be seen how long this auto sector slowdown shall continue or whether recovery will be as fast as the management expects. Nonetheless, given the new orders that the company has bagged, their improving product portfolio and massive import substitution opportunity, Minda remains a compelling auto ancillary stock to watch out for.

BANKS

Bandhan Bank

Financial Results & Highlights

Brief Company Introduction

Bandhan started in 2001 as a not-for-profit enterprise that stood for financial inclusion and women empowerment through sustainable livelihood creation. It turned into an NBFC a few years later but the core objective remained financial inclusion. When Bandhan Bank started operations on August 23, 2015, it was the first instance of a microfinance entity transforming into a universal bank in India. On the day of launch itself, Bandhan Bank started with 2,523 banking outlets. It offers world-class banking products and services to urban, semi urban and rural customers alike. In the last few years of operations, Bandhan Bank has spread its presence to 34 of the 36 states and union territories in India with 4,559 banking outlets serving 2.01 crore customers, as on March 31, 2020.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3405	2962	14.96%	3346	1.76%
PBT	735	1230	-40.24%	693	6.06%
PAT	550	804	-31.59%	517	6.38%

Detailed Results:

1. The revenues for Q1 grew 15% YoY. PAT fell 21% YoY mainly due to higher provisions of Rs 849 Cr vs Rs 125 Cr last year.
2. Deposit portfolio grew 35.3% YoY and 6.18% QoQ.
3. Loan portfolio (on book + off book) grew 17.68% YoY.
4. CASA grew 47.3% YoY.
5. CASA ratio at 37.08% (excluding GRUH deposits 37.83%) against 36.84% QoQ.
6. Added 2.13 lakh customers during the quarter with a total customer base at 2.03 crore as on June 30, 2020.
7. Capital Adequacy Ratio (CRAR) at 26.45%; Tier I at 23.22%.
8. During the quarter the Bank has taken accelerated additional provision on standard advances amounting to Rs 750 Cr. With this provision and additional Standard Assets provision that Bank is carrying in Micro banking portfolio total additional provision in books stands at Rs 1,769 Cr.
9. Net Interest Income (NII) for the quarter grew by 14.98% YoY to Rs 1,811 Cr as against Rs 1,575 Cr in the corresponding quarter of the previous year.
10. Non-interest income grew by 16.92% YoY to Rs 387 Cr for the quarter against Rs 331 Cr in the corresponding quarter of the previous year.
11. Operating Profit for the quarter increased by 16.81% YoY to Rs 1,584 Cr against Rs 1,356 Cr in the corresponding quarter of the previous year.
12. Net Interest Margin (annualized) for the quarter stood at 8.15% (merged) against 8.13% on June 30, 2020.

13. Total Advances (on book + off book + TLTRO) grew by 17.68% YoY to Rs 74,331 Cr at the end of Q1FY21 against Rs 63,164 Cr in the previous year, and 3.46% QoQ against Rs 71,846 crores in the previous quarter.
14. Total Deposits increased by 35.3% YoY to Rs 60,610 Cr in Q1 as compared to Rs 44,796 Cr in the previous year, and 6.18% QoQ against Rs 57,082 Cr in the previous quarter.
15. Gross NPAs as on June 30, 2020, is at Rs 1007 Cr (1.43%) against Rs 1020 Cr (1.7%) last year.
16. Net NPAs as on June 30, 2020 is at Rs 336 Cr (0.48%) against Rs 348 Cr (0.59%) last year.
17. Cost to income ratio was at 27.9% in Q1 vs 28.9% last year.
18. The retail deposit to total deposits was 77.7%.
19. Daily collection efficiency had reached 70% at the start of July.
20. In Micro banking, additional loans were given to only 5% of existing customers.
21. The segment saw asset growth of 21.2% YoY and borrower base growth of 13.82% YoY to 11.2 million.
22. Non-Micro Banking Asset growth was at 11.9% YoY.
23. The average LTV in the Mortgage segment was at 67%.
24. The cost of funds was at 6.9% in Q1.
25. No new locations opened in Q1.

Investor Conference Call Details:

1. The management expects collection efficiency to improve going forward and to reach pre-COVID levels by September.
2. Maharashtra collections were at 54%.
3. Other retail loans grew greater than 50% YoY which has been attributed to a rise in gold loans. The company is currently offering this service in more than 500 branches vs less 100 branches a year ago.
4. Overall disbursement in micro banking was at Rs 45000. The top-up loans in this segment were at an average of Rs 35000.
5. In the microcredit portfolio, 70-75% is in West Bengal, Assam, Tripura, and Bihar.
6. The SEL portfolio remains unsecured and is now at Rs 2000 Cr.
7. The company expects around 67-68% of customers to be paying their dues in June.
8. The management does not expect any big changes in opex going forward.
9. The NPAs in the mortgage has indeed gone up marginally as collection efficiency in this segment has reduced slightly from 87% in April to 85% in June.
10. PSLC income in Q1 was at Rs 119 Cr.
11. Collection efficiency has been calculated considering the total customer set has not applied for the moratorium.
12. Credit cost in terms of the NPAs is at 1.37% as of the 30th of June, which is 1.3% of the outstanding loan portfolio.
13. The management admits that the portfolio will be considered stabilized once collection efficiency goes above 90% in the mortgage category.
14. Around 70-75% of the total provision is towards microfinance.
15. The management has stated that Q1 and Q2 have been a muted quarter historically in terms of disbursement.
16. Historically the company has maintained a growth rate in micro banking of 30% YoY. Around 10% of this 30% comes from new customers and the rest 20% comes from existing customers. But in

the current year, new customer acquisition has been slow and the company is looking to boost the growth using the existing customer set.

17. They have added extra field officers as they were not having full-fledged group meetings. These extra field officers can be used to mitigate industry attrition which is currently at 8-9%. This new worker group can also be used as ready staff available with experience to be posted in the new branch to start that business. Typically, the company adds 8-10% in the employee strength each year.
18. On the whole, the core business models of micro banking and mortgage remain unchanged for the company.
19. The lending for additional loans to existing customers is given at a 1% high rate of 18.85%.
20. The labour migration does not seem to have affected the company a lot as most of the borrowers have locally entrenched families and are running local businesses and the primary borrower is not involved in migratory labour activities.
21. The company has seen that the number of customers opting for a moratorium under phase 2 is at least 20% lower than the phase 1.
22. Collection efficiency has not dropped for customers who have restarted their repayment activities.
23. 50% of MFI borrowers have a single loan only from Bandhan. The company feels that there are a lot of cross-selling opportunities in this customer set for other loans like MSME, etc.
24. 30% of MFI borrowers have a loan from another entity. The company is also looking to consolidate here so that it becomes the first choice for borrowing in this customer set for other loans like housing, etc.
25. According to the management, portfolio buyout under IBPC in the mortgage is more of a liquidity management exercise as the company has a lot of priority sector loans. The company issues it at a low grade and to deploy that money because reverse repo today has come down substantially. Between selling and buying, the company makes a spread of 100+ bps.
26. Disbursements in the mortgage have come back to 77% of pre-COVID levels. In June it was at Rs 240 Cr compared to Rs 300 Cr in Feb.
27. The management has stated that it would like to merge the holding company with the bank to solve the issue of bringing the promoter holding down to a regulatory limit of 40%.
28. The management has stated that any customers that have not made their payments are automatically considered to be under moratorium.
29. There shouldn't be any impact of the upcoming state elections on the customer set and operations in those particular states.
30. The company has given out new business loans to roughly 5% of customers.
31. Around 44.4% of loans are taken for agriculture and allied activities. Around 30.3% is from food processing and small retail store. Most of the new business loans in rural areas in the above spaces which have not been affected too much from the lockdown.
32. Close to 30% of borrowers have not made any payments in the moratorium period at the end of June. This is reflected in the fact that collection efficiency for June was at 68%.
33. The NBFC-MFI portfolio has reported 100% collections for the month of June. This is mostly due to easy liquidity available to such entities under NABARD and the TLTRO option.
34. The management expects to reach 90% in collections by September.

Analyst's View:

Bandhan Bank has aggressively grown its business over the last few years. The company had a decent quarter with god YoY growth in deposits and loans. Management is confident that the business would come back to normalcy by September. The company is seeing good traction in mortgage and NBFC businesses. It is also confident of leveraging its existing customer set effectively to maintain its growth rate and mitigate the fall in new customer acquisition from COVID-19. There are still a lot of uncertainties due to external events and the internal structure of the business is putting pressure on the stock price. It remains to be seen how the story plays out in the medium term and whether things will come back to normalcy as reported by the management when the moratorium period ends. Nonetheless, given its consistent growth momentum in recent years and its rapidly expanding customer set, Bandhan Bank remains an interesting company to keep track of the microfinance and small finance banking industry in India.

HDFC Bank

Financial Results & Highlights

Brief Company Introduction

HDFC Bank Ltd. is an Indian banking and financial services company headquartered in Mumbai, Maharashtra. It has a base of 1,04,154 permanent employees as of 30 June 2019. HDFC Bank is India's largest private sector lender by assets. It is the largest bank in India by market capitalisation as of March 2020.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	34453	32363	6.46%	35918	-4.08%
PBT	8938	8534	4.73%	9174	-2.57%
PAT	6659	5568	19.59%	6928	-3.88%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	36699	34324	6.92%	38287	-4.15%
PBT	9340	8835	5.72%	9682	-3.53%
PAT	6941	5691	21.96%	7297	-4.88%

Detailed Results:

1. The net standalone revenues rose 6.5% YoY in Q1.
2. NII grew 17.8% YoY to Rs 15665 Cr driven by growth in advances of 20.9% YoY and growth in deposits of 24.6% YoY.
3. Other income formed 20.06% of net revenues at Rs 4075 Cr vs Rs 4970 CR last year.
4. The breakup of other income is:
    1. Fees & Commissions: Rs 2231 Cr vs 3552 Cr last year.
    2. FX & Derivatives: Rs 437 Cr vs 577 Cr last year.
    3. Gain on sale/revaluation: Rs 1087 Cr vs Rs 875 Cr last year.
    4. Miscellaneous Income: Rs 321 Cr vs Rs 630 Cr last year.
5. The impact of COVID-19 on other income is estimated to be at Rs 2000 Cr.
6. Operating expenses were down 2.9% YoY. The cost to income was at 35% vs 39% a year ago. Operating expenses were lower primarily due to lower loan origination and sales volumes.
7. Pre-provision Operating Profit grew 15.15 YoY. Provisions and contingencies for the quarter were at Rs 3891.5 Cr
8. Standalone PAT rose 19.6% YoY.
9. Total Balance Sheet size rose 22.1% YoY. Total Deposits rose 24.6% YoY while CASA deposits rose 26% YoY. Time deposits grew 23.7% YoY. The bank maintained an LCR of 140%.
10. Total advances rose by 20.9% YoY with domestic advances rose 21% YoY. Retail advances grew 7.2% YoY while wholesale advances grew 37.6% YoY. Retail to the wholesale mix was at 48:52.

11. The bank maintained a CAR of 18.9%. with Tier I CAR at 17.5%.
12. GNPAs was at 1.36% (1.2% excluding agricultural NPAs) on 30th June 2020. NNPA was at 0.33%.
13. The bank maintained floating provisions of Rs 1451 Cr and contingent provisions of Rs 4002 Cr. Total provisions were at 149% of GNPAs.

Investor Conference Call Details:

1. During the quarter, the bank acquired 1.2 million liability customers.
2. The bank will keep on digitizing current accounts onboarding, video KYC, and so on to supplement its existing digital offering. 95% of bank branches are operational.
3. At the time of the call, the bank had already launched its video KYC on a limited pilot basis. This capability will be scaled up in Q2.
4. Payment business volumes, both acquiring and issuance saw a bounce back to about 70% of Jan 2020 levels in June.
5. Incorporate and wholesale banking, the bank went in for AAA corporates only. Overall, the bank improved the risk rating of its balance sheet by 30 bps to 4.3%.
6. The company has restricted consumer loans until the recovery comes back. The management hopes recovery to come back by September.
7. Retail originations fell by 70% during the quarter, both as a combination of tightening of credit standards as well as some amount of pessimism in the borrowers.
8. Personal loans saw a drop of 86% in originations. Credit cards dropped by 87%, and spends fell by 40%, leading to a book contracting by 4.5% during the quarter.
9. The management has stated that the company has set a goal that to provide frictionless service, benchmarking against an Amazon or a Google, with an enjoyable customer journey across a wide product range and geography in the most convenient manner to the customers.
10. The company is 65th in brand recognition globally, among all global companies.
11. The company has changed its technology from core banking to middleware, to enterprise, and now SaaS to be able to deliver across all channels an Omni-channel experience.
12. The company has added 6,381 business correspondents, managed by Common Service Centres, including 1,002 opened during the quarter. It also has around 200 branches are in various stages of readiness to open in a short time.
13. The annualized slippage in the quarter is at 1.2%.
14. The core credit costs were at 1.08% of advances.
15. Corporate collections in April 2020 was at 45% of last year's level. May collections rose 47% MoM and June increased 38% MoM and was at 94% of last year's June level.
16. An analysis of top 25 disbursements by value in TLTRO 1.0 during the quarter showed that 46.5% was ultimately towards CapEx; 30.2% was towards working capital requirements; 9.5% was for

supporting other banks and market participants with liquidity through participatory certificates and secondary purchases; 7.5% comprised of other reasons, including availing existing lines for building liquidity buffers; and the balance, 6.3%, was towards on lending for PSL purposes.

17. The bank saw a significant increase in electronic straight-through processing transactions in its collections and payments businesses from 86% in June 2019 to 94% in June 2020.
18. Average Corporate CASA grew 37% YoY and average corporate FDs grew 31% YoY.
19. 86% of the externally rated portfolio is either AAA or AA in the corporate lending space.
20. In terms of historical trends of delinquency, there is a 55% lower probability of default in the unsecured wholesale book than there is in the secured wholesale book.
21. 68% of the new-to-bank disbursements had a ticket size of less than Rs 1 Cr in the wholesale SME lending space.
22. The bank acquired 533 new SME customers in Q1. Collateral cover for the new-to-bank disbursements for 89% of the cases was greater than 100%.
23. In gold loans, originations fell 15% but the book was up by 3% at the same time.
24. The unsecured portfolio primarily consists of the personal loan, the business loan, and the credit card. The personal loans are given entirely to salaried individuals only. For customers in the moratorium portfolio, 98% of them continue to receive salary credits and 97% are 0 DPD customers.
25. Auto loans are moving to 60-70% of pre-COVID levels.
26. The management has stated that the bank will remain cautious and maintain tight filters for unsecured loans despite a massive fall in originations in this segment.
27. The bank is comfortable with 4.7% of the 9% high-risk assets. It has thus created further contingent provisions for the remaining 4.3%.
28. The management maintains that the bank has excellent capital adequacy and a great portfolio and it does not need to raise any external capital at the moment.
29. The management maintains that the bank will continue to maintain NIMs at 4.1-4.5% band. This is mainly due to its robust risk-based price methodology which ensures that ensures that the bank knows what is the minimum return that it needs to get from each and every product, net of cost, and net of expenses.
30. The management remains confident of the succession planning for the top posts within the bank.
31. From the first moratorium customers, 70% of them paid up their June installments.
32. The bank has kept both Moratorium 1 & 2 as opt-in only.
33. Retail to wholesale fees remains at close to 90:10.
34. The management maintains that the bank is not chasing growth and will only do business as long as the bank's credit criteria are met.

Analyst Views:

HDFC Bank is the biggest bank in the country by market capitalization. It has deservedly earned its stellar reputation over the years. The bank has performed well in the first quarter of FY21 with more than 22% growth in Balance Sheet and advances. It is a testament to the bank's brand image that the bank saw deposits and advances growth even in times of COVID-19.

The management has assured that the bank has adapted to the new normal due to the COVID-19 disruption and that its balance sheet and customer set are resilient enough to weather the uncertainty ahead. It maintains that 98% of customers under moratorium have not seen any decline in salaries and thus the bank is safe from any negative surprises coming from the moratorium ends. It remains to be seen how the whole COVID-19 scenario pans out and how it changes consumer behaviour especially for the banking industry going forward. Nonetheless, given the bank's resilient customer set, strong liquidity profile, and enduring brand image, HDFC Bank remains an indispensable banking stock for every investor, more so because of the recent correction in valuation.

Kotak Mahindra Bank

Financial Results & Highlights

Brief Company Introduction

Kotak Mahindra Bank is an Indian private sector bank headquartered in Mumbai, Maharashtra, India. It offers banking products and financial services for corporate and retail customers in the areas of personal finance, investment banking, life insurance, and wealth management. As of April 2019, it is the second largest Indian private sector bank by market capitalization.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	7685	7945	-3.27%	8294	-7.34%
PBT	1662	2082	-20.17%	1675	-0.78%
PAT	1244	1360	-8.53%	1267	-1.82%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	12323	12130	1.59%	12085	1.97%
PBT	2435*	2913	-16.41%	2674**	-8.94%
PAT	1840	1927	-4.51%	1952	-5.74%

*Contains provision of Rs 1119 Cr.

**Contains provision of Rs 1262 Cr.

Detailed Results:

1. The net standalone revenues fell 3% YoY in Q1. Consolidated revenue was flat at 1.6% gain YoY in Q1.
2. Consolidated profit fell 4.5% YoY in Q1.
3. On a standalone basis, NII grew 17.8% YoY. NIM was at 4.4% vs 4.48% a year ago.
4. Standalone CASA was at 56.7% vs 50.7% a year ago.
5. Avg Savings deposits rose 34% YoY to Rs 1,05,673 Cr. Avg current deposits rose 10% YoY to Rs 36,066 Cr.
6. Advances were flat YoY at Rs 203,998 Cr vs Rs 208,030 Cr.
7. Standalone CAR was at 21.2% with Tier I ratio at 20.6%.
8. Standalone GNPA was at 2.7% and NNPA was at 0.87%.
9. Disbursals till June was at Rs 550 Cr while disbursals till July 23rd was at Rs 4000 Cr all under the MSME scheme.
10. COVID-19 provisioning as of 30th June 2020 was at Rs 1266 Cr.
11. The bank raised Rs 7442 Cr through QIP and maintains LCR of >150%.
12. The company maintained a consolidated CAR of 23% vs 18.4% a year ago.
13. The book value per share was at Rs 383.8 per share.
14. AUM of Kotak Mahindra Life Insurance grew 17.4% YoY to Rs 34223 Cr.

15. The company has an overall cash surplus of Rs 76,443 Cr out of which Rs 59,543 Cr is in Kotak Mahindra Bank.
16. Kotak securities saw market share shrink to 7.6% vs 10% last year.
17. Kotak AMC saw market share rise to 6.8% vs 6.3% a year ago.

Investor Conference Call Details:

1. Around 9.65% of the loan book is under moratorium 2.0. Around 80% of these loans are secured.
2. The fees and services income declined by 33% YoY in Q1.
3. Other banking-related fees fell 40% YoY due to lower volumes from COVID-19.
4. Employee costs went down 6% due to senior management taking pay cuts.
5. On average, around 94% to 95% of branches remained open right through the quarter.
6. The cost of savings account is at 4.22% vs 5.51% last year.
7. Kotak was the first bank to launch a zero contact video KYC digital savings account.
8. For disbursement of the MSME loan, Kotak developed a completely end-to-end paperless digital documentation called e-Sign.
9. Slippages for Q1 was at Rs 796 Cr.
10. Since the start of the year, 97% of recurring deposits & 87% of fixed deposits have come from digital channels.
11. In the life insurance subsidiary, new business premium in individual APE grew by 8% YoY vs industry decline of 18% YoY. The overall premium went down to Rs 1207 Cr from Rs 1640 Cr due to the extension of the grace period in lockdown. PAT for the entity grew 20.7% YoY. 95% of policies were sold through Genie and Banca channels
12. In Kotak securities, the average daily volume for retail businesses grew to Rs 59,000 Cr from Rs 36,000 Cr last year. Demat accounts have risen to 4.31 Cr from 3.67 Cr a year ago. Kotak Securities' mobile trading app has seen a greater than 2x jump in mobile trading volumes in this period.
13. In Kotak AMC, Q1 Average AUM fell 10% QoQ primarily driven by mark-to-market changes.
14. The asset management business remains the first and only signatory to the United Nations Principles of Responsible Investment in India.
15. The management sees a huge opportunity in the markets related and distribution-related businesses at this point in time, with the advent of technology to drive market share and get a disproportionately higher share of fee and franchise incomes.
16. At the wholesale bank-level, the moratorium 2.0 is at less than 5% for real estate loans. The management remains cautious in this segment and has moved the portfolio to higher-rated developers and larger developers.

17. The management remains confident that the portfolio is well guarded for the bank and it should require minimal restructuring.
18. From a risk perspective, the bank has focussed in various segments like MSME loans which are under the sovereign guarantee, and in special situations fund where the company has put in about 15% to 20% of its capital alongside fund investors. In the consumer space, the focus remains on secured retail.
19. On the bank side, the company's primary focus remains the cost of funds and customer franchises. The management believes that there is still room for the cost of funds in savings to go down further from current levels. This was the driver for NII growth despite flat YoY growth in advances.
20. The management maintains that mortgages remain a big market for the company.
21. Pre-COVID, the channel split for operations was at 80:20 for physical to digital. This has now turned to 10:90 for the company. The management believes that in the long term equilibrium will come to 50:50.
22. The management remains confident that due to the shift towards digital, it will be able to compete better with banks that have far more branches that Kotak's 1600 branches.

Analyst's View:

Kotak Mahindra Bank is the second-biggest private bank in the country by market capitalization. It has deservedly earned its stellar reputation over the years. The bank has performed resiliently in Q1FY21 with more than 34% growth in savings deposits and has gotten 18% YoY growth in NII despite flat advances. The company has done well to keep its books resilient with more than 80% of loans under moratorium 2.0 being secured. It has also seen a very good rise in the digital channels and plans to use this consumer shift to better compete with peers who have a much larger physical presence. It remains to be seen how the COVID-19 situation will unravel and what final impact will the end of the moratorium unravel for the company. Nonetheless, given the bank's track record and the capability and vision of the management over the years, Kotak Mahindra Bank remains a pivotal banking stock for every Indian investor.

CEMENT

Heidelberg Cement

Financial Results & Highlights

Introduction

HeidelbergCement India Limited is is a subsidiary of HeidelbergCement Group, Germany. The Company has its operations in Central India at Damoh (Madhya Pradesh), Jhansi (Uttar Pradesh) and in Southern India at Ammasandra (Karnataka).

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	417	601	-30.62%	527	-20.87%
PBT	74	122	-39.34%	101	-26.73%
PAT	49	79	-37.97%	66	-25.76%

Detailed Results:

1. The company had a dismal quarter with a 31% YoY drop in revenues and a 38% YoY drop in profits.
2. The company also saw a volume decline of 32% YoY in Q1.
3. EBITDA margin for Q1 fell 40 bps YoY to 26.7% in Q1.
4. The main reason for the fall in revenues and profits was the loss of operations during the lockdown. Operations resumed from 20th April thus incurring an operational loss of 20 days.
5. Gross realizations rose 2.4% YoY to Rs 4739/ton.
6. EBITDA per ton remained flat at 0.9% YoY growth in Q1 to Rs 1264.
7. The company had Zero Lost Time Injury (LTI) and Fatality.
8. Dependence on-grid power decreased to 59%.
9. The cash position for the company was at Rs 160 Cr as of 30th June 2020.
10. The company maintained a negative working capital.
11. Mycem power volumes were down 38% YoY in Q1. It formed 14% of trade volumes.

Investor Conference Call Highlights:

1. The industry suffered a massive 85% decline in volumes in April.
2. The company is keeping a hold on recruitment and capex until things normalize.
3. The prices have improved by 2.5% YoY for the company.
4. Demand remains stable for the company despite the onset of monsoons. There hasn't been any major drop in demand from June to July.
5. There was also a 30% YoY reduction in costs which was mainly in other expenses and due to lower volumes sold in Q1.

6. The company stands ready to doe greenfield expansion in the West, East, and Central facilities.
7. The management expects industry volumes to stay flat YoY in June and July showing strong recovery from the fall in April & May.
8. There are mixed expectations from Q2 as volumes generally decline in this quarter due to seasonal factors but this time there can be sustained demand as the government is looking to focus on the construction industry as a means to generate employment.
9. The management stressed that the main reason for the fall was not the production shortage inQ1 but the logistical issues which prevented timely sales and delivery of products.
10. The management remains consistent with its message that the company will not be looking to expand its market share by reducing prices since it will hurt the brand image and established the quality of products. Thus the company will remain focused on slow but permanent market share expansion on the basis of brand quality.
11. The management has stated that the current waste recoveries capacity is adequate for the company and the solar plant is still in the works and its construction got delayed due to COVID.
12. There has been no material impact on the company from the Bihar floods as there virtually no sales for the company in the state.
13. The company is looking at 5 MW solar plant capacity in the Central facility. The company has low CO2 emissions as it makes blended cement but it is determined to reduce it as much as possible.
14. The company has seen sales go down in urban areas and sales have been going up in semi-urban and rural areas.
15. The increase in diesel prices has not impacted the company as the increase has been passed on directly.
16. The lead distance has increased 10 Km in Q1FY21 as compared to Q4FY20. This is a consequence of increased demand in rural areas.
17. The management has not decided on annual discounts as it can affect P&L very badly in current times.
18. The direct to dealer dispatches for the company is at 60-70%. In MP it is at 80%.
19. Around 35-40% of volumes, demand comes from rural regions.
20. The increase in fly ash cost due to the increase in lead distance is around Rs 150.
21. There hasn't been a significant change in inventory from March to June since the company does not keep much inventory at the warehouse level.
22. The management has recommended a good dividend for the shareholders which is subject to the upcoming AGM.
23. The company will continue to maintain its capex for FY21 at 40% of annual depreciation as it has done in the past.

24. The solar plant is not a capex item and is in an arrangement where the vendor will be selling power to the company at a fixed cost for the next 25 years.
25. The average pricing per bag for the top 3 brands is around Rs 365-370.
26. The average fuel price in Q1 was around Rs 1.36 per bag.
27. The company is not looking to merge Zuari and Heidelberg India as there are no significant synergies to justify this move currently.

Analyst's View:

Heidelberg Cement is one of the leading cement makers in South and Central India. The company has had a mixed quarter with steady realization and margins and a big fall in volumes for Q1. The company managed to do this mainly on the back of its established brand image in the retail market. The company has also done well to overcome the logistical issues it faced at the start of the lockdown. It is also good to see that the management remains focused on steadily increasing permanent market share on the basis of the brand image and is not chasing temporary market share from price drops. It remains to be seen how demand comes back to the industry and whether there are any disruptions in-store from COVID-19. Nonetheless, given the strong brand image of the company, the efficient utilization of its plants, and the pricing power it has, Heidelberg Cement India can prove to be a pivotal cement sector stock going forward.

Ultratech Cement

Financial Results & Highlights

Brief Company Introduction

UltraTech Cement Ltd. is the largest manufacturer of grey cement, Ready Mix Concrete (RMC) and white cement in India. It is also one of the crown jewels of the Aditya Birla Group, one of India's leading Fortune 500 companies.

The company has a consolidated capacity of 117.35 Million (including Bara) Tonnes Per Annum (MTPA) of grey cement. UltraTech Cement has 23 integrated plants, 1 clinkerisation plant, 27 grinding units and 7 bulk terminals, post the Century merger. Its operations span across India, UAE, Bahrain, Bangladesh and Sri Lanka. UltraTech Cement is also India's largest exporter of cement reaching out to meet the demand in countries around the Indian Ocean and the Middle East.

In the white cement segment, UltraTech goes to market under the brand name of Birla White. It has a white cement plant with a capacity of 0.56 MTPA and 2 WallCare putty plants with a combined capacity of 0.8 MTPA. With 100+ Ready Mix Concrete (RMC) plants in 35 cities, UltraTech is the largest manufacturer of concrete in India. It also has a slew of speciality concretes that meet specific needs of discerning customers.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	7670	11194	-31.48%	10583	-27.53%
PBT	1172**	1890	-37.99%	1445*	-18.89%
PAT	806	1267	-36.39%	2906	-72.26%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	7913	11554	-31.51%	10943	-27.69%
PBT	1157**	1893	-38.88%	1462^	-20.86%
PAT	796	1281	-37.86%	3239	-75.42%

*Contains deferred tax credit of Rs 1708 Cr
^Contains deferred tax credit of Rs 2024 Cr
**Contains an exceptional item of loss of Rs 157 Cr

Detailed Results:

1. The company had a dismal quarter with consolidated revenues declining 32% YoY and PBT declining 39% YoY.
2. Effective volumes declined 22% YoY in Q1 while EBITDA/ton increased 12% YoY to Rs 1651/ton.
3. The company reduced Rs 2209 Cr of net debt to Rs 14651 Cr as of 30th June 2020.
4. Working capital turned negative with a change of Rs 789 Cr QoQ.
5. Century Cement had utilization of >70% in May & June.

6. Increased pet-coke usage to 73% vs 69% in the last quarter. Costs reduced by Rs 105/ton vs Q4FY20.
7. Century Cement achieved EBITDA/ton of > Rs 900 in Q1.
8. Ultratech Nathdwara con-core assets disposal to be completed by August 2020 and proceeds to be used to reduce company debt.
9. Operating margins improved 1% YoY to 28% in Q1FY21.
10. Net debt to EBITDA reduced to 1.44 times.
11. Retail volume share has improved 13% YoY. The penetration in rural markets has also increased by 13% YoY. Blended cement sales increased by 11% YoY and now account for 78% of sales.
12. Fixed costs were brought down by 21% YoY.
13. Changes in operating costs in Q1 is as follows:
14. Logistics: Declined 5% YoY to Rs 1116/ton. Accounts for 33% of the total operating costs.
15. Energy: Declined 11% YoY to Rs 913/ton. Accounts for 27% of total operating costs.
16. Raw Materials: Rose 2% YoY to Rs 477/ton. Accounts for 14% of total operating costs.
17. Overall variable costs reduced by 9% YoY in Q1.
18. EBITDA margins improved 4% YoY to 31% in Q1FY21.

Investor Conference Call Details:

1. Cement prices remained resilient with average prices increasing about 7% over Q4FY20.
2. Work on 1.2 million tons in brownfield expansion in Bihar and West Bengal is going on for the company.
3. The company expects to commission a 2.3 million-ton Dalla Super clinker plant in Uttar Pradesh in the next fiscal year.
4. Total capex for FY21 is expected to not exceed Rs 1500 Cr. The bulk of it is towards return-based capex projects which include the 66-megawatt WHRS projects spread across 7 plant locations.
5. Among the non-core assets of the company are a unit in Dubai and a loan outstanding to a company called 3B Fibreglass in Europe. The company is still looking for buyers for these assets.
6. The management expects a normal monsoon slowdown to take place in the industry. Utilization levels at the same time last year were at 60%.
7. The management has stated that pricing should see corrections of 4-5% due to monsoons.
8. The bulk of sales is occurring in out of urban areas and individual home builder demand is the major driver for demand currently.
9. The company expects big labour come back only after Diwali when the harvest season is over.
10. Urban real estate demand is around 30-40 million tons but this demand has suffered greatly due to the labour migration and lack of workers.
11. The company has been able to grow 30-40% YoY in MP mainly because of the low base and dealer network addition form the acquisitions of JP and Century.
12. The company will move ahead with a plan to permanently reduce overheads by a minimum of 10% going forward. Overheads for full-year is around Rs 5000 Cr in FY20.
13. The contribution from green power is expected to go up to 22-23% for the current 14% due to investment in WHRS and solar.
14. The recently concluded transaction for Ultratech which had an EV of $120 million should net the company around Rs 700 Cr. after taxes.
15. The modernization capex requirement is around Rs 750-800 Cr.
16. The average capacity utilization in Q1 was at 46% with only 60+ operating days in the quarter.

17. The exceptional item of Rs 157 Cr in Q1 was in regards to an incentive of 75% from Rajasthan Govt for expansion in Aditya Cement line 3. This incentive was exhausted in 2012 but the state govt intervened in 2019 and stated that the incentive had to be 50% and the rest needed to be paid back to the govt. the company challenged this decision in the High Court and Supreme Court but lost in both cases and had to make the required pay-out.
18. The management maintains that at each plant after the acquisition, its goal is to be able to provide the same quality products from the new plants as from its existing plants.
19. RMC sales were at Rs 148 Cr in Q1 while White Cement sales were at Rs 250 Cr.
20. The management expects industry volumes to have declined by 33-35% in Q1.
21. The company is also expecting good demand in the East from institutional infra spending which happens typically before elections in the region.
22. Despite demand coming back slowly, the management remains cautious of the near future as there are many uncertainties that may adversely affect operations.
23. The company will start work on North Pali as it will lose the license to the mines in December 2022. Thus the company is expected to commission a facility there by October 2022.

Analyst's View:

Ultratech Cement is the biggest cement maker in India. The company has done well to acquire aging cement makers in India and integrating them and adding on to the company's ever-growing market presence and reach in the country. Despite fall in volumes in Q1, the company was able to keep efficiency high and keep increasing EBITDA/ton and EBITDA margins. The company is doing well to focus on cash conservation and cost reduction after the disruption caused by COVID-19 while looking to sell off its non-core assets to reduce debt. It remains to be seen how long will it take for demand to normalize for the industry and when will demand come back to the institutional side and urban areas where demand has fallen the most. Nonetheless, given the company's leadership position in the industry, its wide distribution network across India, and its strong brand image, Ultratech Cement remains a pivotal cement sector stock for all Indian investors.

CHEMICALS

Apcotex Industries

Financial Results & Highlights

Introduction

Apcotex Industries Limited is one of the leading producers of Synthetic Lattices (VP Latex, Acrylic Latex, Nitrile Latex) and Synthetic Rubber (HSR, SBR) in India.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	62	148	-58.11%	117	-47.01%
PBT	-7	16	-143.75%	5	-240.00%
PAT	-7	11	-163.64%	3	-333.33%

Detailed Results:

1. The revenues for the quarter were down a lot with a fall of 58% YoY.
2. Similarly, PBT & PAT fell into negative territory in Q1. This was because of lower volume sales coupled with high cost inventory
3. Operating EBITDA fell to Rs (4.3) Cr.
4. Both plants were closed since last week of March and resumed production from end of April. Current production in June was at 80-85% of pre-covid levels.
5. The Rs 100 Cr for Capex phase 1 was completed. Capacity enhancement in Valia is expected from Q2.
6. The new project for XNBR gloves is in design phase and construction should start in Q3 once environmental consents are obtained.

Investor Conference Call Highlights:

1. Dumping of NBR in India continues and South Korea accounts for 50% of these imports. Fresh antidumping petition has been filed in Q4 FY20 against Russia, China, Japan and European Union. The case was initiated by the designated authorities in Q1 FY21.
2. The capex for the XSB latex has gone up from Rs 70 Cr to Rs 100 Cr to be spent in FY21 and FY22.
3. The company has currently put on hold the plans for the second NBR line and it will revisit this once the antidumping petition has been resolved.
4. By Q3FY21, the management expects the company to be making around 4 times NB latex for gloves as it did pre-covid.
5. The churn in equity investments has been high recently as the company has shifted advisors and has reduced its equity exposure.
6. The management has stated that the demand for nitrile latex for gloves is even higher than demand for natural latex for gloves.
7. With the capex in the latex for gloves, the company is targeting 3% of global demand which is 45,000 tons per year.

8. The revenue at full capacity for this volumes is at Rs 300-350 Cr at current prices.
9. The breakup in Q1 was at 70% latex and 30% NBR in value terms.
10. Packaging and paperboard has come back to pre-covid levels while water proofing is expected to come back post monsoons with pent up demand. Auto industry however remains subdued.
11. The margin improvement from the debottlenecking and new power plant is expected to be around 1-2%.
12. The company saw losses from high cost inventory as these finished goods were made in March when oil prices were up as compared to post lockdown. Thus the company had to sell this inventory at 30-35% lower prices in Q1.
13. Volume decline in Q1 was only 14% YoY as compared to value decline of 69% YoY.
14. The company will keep maintaining R&D at current levels and it is looking to introduce new grades in existing products in the next 1-2 years.
15. The company did not have any pending orders from Q4 in Q1.
16. Exports were at almost 19% of total sales in Q1 vs 13-14% of sales in the previous year.
17. The debt to equity for the company has risen as the company took out a loan in FY20 for coal power plant and working capital due to COVID-19. All of these borrowings are short term in nature and the company remains net debt free after accounting for the net cash position.
18. The company may take on new debt to finance new projects.
19. The management thinks that EBITDA/ton will come back to FY19 levels from Q2 onwards.
20. The management has stated that the main advantages that the dumpers are having in contrast to Apcotex are raw material price advantage and scale.

Analyst's View:

Apcotex is one of the very few synthetic rubber makers in India. The company has seen a dismal quarter in Q1 with EBITDA loss and volume decline. Exports were encouraging but the company did lose a few orders due to the lockdown. The company is now focussing on capitalizing on the strong demand for gloves and is concentrating on establishing a direct facility for making latex for gloves in its Valia plant. The antidumping petition by the company is still not accepted and this has caused the management to pause on its plans to expand NBR production lines. It remains to be seen how the demand for the company's products changes going forward and how the company will be navigating the issues brought up from the continued dumping by international makers. Nonetheless, given the company's industry position, the prudent management of the company, and the company's optimism as deduced from its increased Capex plans, Apcotex seems to be a good chemical stock to watch out for.

Galaxy Surfactants

Financial Results & Highlights

Brief Introduction:

Galaxy Surfactants is engaged in manufacturing of surfactants and other speciality ingredients for the personal care and home care industries. The Company produces a range of vital cosmetic ingredients, including active ingredients, ultra violet (UV) protection and functional products. Its products cater to various brands in the fast moving consumer goods (FMCG) sector and offers in various applications, including skin care, hair care, oral care, body wash, sun care, household cleaners and fabric care segments. Galaxy Surfactants is a global leader supplying a wide range of innovative products to over 1750+ customers in 80+ countries.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	362	470	-22.98%	435	-16.78%
PBT	46	58	-20.69%	59	-22.03%
PAT	34	37	-8.11%	46	-26.09%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	608	666	-8.71%	657	-7.46%
PBT	70	76	-7.89%	82	-14.63%
PAT	56	53	5.66%	63	-11.11%

Detailed Results:

1. Consolidated revenues fell 8.7% YoY in Q1 mainly on the back of lower fatty alcohol prices which declined from $1161 to $1089 YoY & the fall in specialty chemical sales in Q1.
2. EBITDA for Q1 fell 6.4% YoY while PAT grew 5.7% YoY. EBITDA margin improved 40 bps YoY to 15% in Q1.
3. Volume growth in different geographies in Q1FY21 is as follows:
    - India: Down 2.3% YoY
    - AMET: Up 10.2% YoY
    - Rest of the World: Down 27.4% YoY
4. In Q1, revenue growth in performance surfactant division was 11.5 YoY while specialty care products fell 39.1% YoY. Volumes for PS division grew 7.8% YoY while SCP division volumes fell 26.2% YoY.
5. The company currently has 72 approved patents and 14 are under application.
6. EBITDA/Ton remains stable at above Rs 17,000.

Investor Conference Call Highlights

1. The fall in specialty care products was mainly due to cutbacks in discretionary consumption and an overall slowdown in the developed markets. This expected to reverse as consumption cycle revives and normalcy comes back.
2. A good monsoon followed by a pickup in rural consumption and growing awareness for hygiene and cleanliness has the potential to result in an improved performance going ahead in India.
3. In response to the mishap which took place recently in one of the company's plants which claimed 3 lives in a blast, the company is looking to improve emergency training and it has created a task force to go through the entire factory, equipment by equipment, process by process, plant by plant. The company has started back the plant only after the full inspection was completed and no other issues came to light.
4. Despite the rise in the product mix of low margin performance surfactants, the EBITDA/ton remained above Rs 17,000 as most of the sales were to T1 customers and less to T3 customers who were disrupted the most from COVID-19. And performance surfactants by itself is not a low margin product always and is mainly dependent on RM prices.
5. Geographical revenue breakup is as follows:
    a. AMET: 42%
    b. India: 37%
    c. ROW: 21%
6. The company and management expect the momentum and margins in AMET to continue going forward.
7. The decline in ROW was mainly due to logistical disruptions from lockdown.
8. The demand for the company's products remains buoyant and robust. It is the supply that may be a cause for concern here as around 20-25% of the workforce was unavailable in the past 4-5 months. The management is aiming to reduce this workforce deficit to 0 as soon as possible.
9. The management has stated that the driver for specialty chemicals and its demand is mainly consumer needs and wants. The top of the line priorities for customers generally is protection which is moving towards non-toxic preservation, mildness, sustainability, and sensory. Due to COVID-19, the demand has skewed more towards protection and away from the beauty and personal preferences. This shift in priorities is expected to be short term as demand for discretionary products will come back once normalcy comes back. But the increased priority to protection seems to be permanent.
10. The company has reported a loss in demand for high-end beauty products and similar segments as well as a fall in consumption in travel packs for all segments.
11. The capex implementation planned earlier was to start in October. This has been delayed by 6 months due to COVID-19 and will commence from April next year.
12. Capacity utilization is at 60-65% of pre-COVID levels. It is at 57.6% in absolute terms.

13. Consumer demand remains intact and the management is confident that it will be able to recoup lost demand going forward once supply-side constraints get solved.
14. The shift of more sales to T1 compared to T3 customers is not conscious on part of the company and it was simply because T1 customers were able to resume operations faster than T3 customers. Going forward, this shift is expected to revert back to the previous level as T3 customers also come back to normal.
15. The has been no pullback in committed volumes by any customer for the company due to COVID-19. There hasn't been any structural change in the nature of demand. It is just that the priorities have shifted more towards protection at the detriment of beauty. But this fall in demand for beauty products is only short term and it should normalize going forward.
16. In terms of volume mix, 60-65% is performance surfactants and 30-35% in specialty chemicals.
17. The reduction in expenses is disruption related and is expected to reverse as volumes rise and normal business activities resume.
18. In terms of volumes, only Egypt has shown volume growth in Q1.

Analyst's View:

Galaxy Surfactants is one of the most consistent specialty chemical makers in India. The company has done well to achieve sales volume growth despite disruptions from the domestic lockdown and has even managed to maintain EBITDA/ton despite the product mix shifting towards performance surfactants. The company suffered a revenue decline despite volume growth mainly due to a fall in fatty alcohol prices which forms around 52% of its requirements. The company has seen good growth coming from the AMET region particularly Egypt and demand in all geographies is seen to be reviving. The company is expecting good demand for its products going forward due to the renewed focus on health & hygiene and revival in demand for specialty chemicals going forward. The company has enough spare capacity to handle any upsurge in demand. It remains to be seen how the whole situation will pan out going forward and what final impact it will have on the global economy and whether the focus on health and hygiene is going to stay or not post COVID. Nonetheless, given the company's robust product portfolio and the ever-increasing list of both FMCG majors and niche specialty product makers, Galaxy Surfactants remains a good stock to watch out for in the specialty chemicals space.

PI Industries

Financial Results & Highlights

Introduction:

PI Industries Limited manufactures and distributes agro chemicals in India and internationally. The company offers agrochemicals, including insecticides, fungicides, and herbicides; specialty products; and generic molecules under various brands. It also provides research and development services comprising target discovery, molecule design, library synthesis, lead optimization, biological evaluation, and route synthesis; and custom synthesis and manufacturing solutions consisting of process research and development, analytical method development, synthesis of reference standards, structure elucidation and synthesis of impurities, physio-chemical studies and 5-batch analysis under GLP conditions, scale-up studies, safety data generation, waste categorization and treatability studies, process/plant engineering, and large-scale commercial production.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	972	766	26.89%	801	21.35%
PBT	172	132	30.30%	125	37.60%
PAT	132	101	30.69%	98	34.69%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1068	786	35.88%	863	23.75%
PBT	190	133	42.86%	142	33.80%
PAT	146	102	43.14%	111	31.53%

Detailed Results:

1.
2. The company witnessed phenomenal revenue growth of 36% YoY in consolidated terms in Q1.
3. The profits for the company were up for Q1 with a rise of 31% & 43% YoY respectively in standalone and consolidated terms.
4. The EBITDA for the company grew 55% YoY in Q1 and EBITDA margin improved 140 bps to 22%.
5. Fixed overheads declined 17% YoY in Q1.
6. Isagro Asia saw good growth of 13% YoY in Q1.
7. The board has recommended a final dividend of Rs 1/share.
8. Exports saw a growth of 23% YoY in Q1 while domestic sales grew 76% YoY in the same period.
9. FCF of Rs 298 Cr was generated in Q1. Networking capital to sales improved from 3.68 to 4.95.
10. The company now has a surplus cash position of Rs 98 Cr as of 30th June 2020.
11. Debt to equity was at 0.18 times vs 0.02 a year ago.
12. The company saw the highest ever placement of Nominee Gold. It also launched PI MItra in Q1.
13. 7 new patent applications were made in Q1 including intermediary of COVID-19.

14. The company successfully raised Rs 2000 Cr in QIP at an average price of Rs 1470 per share.
15. The company maintained an order book of > $1.5 billion.
16. The company expects to launch 2 new products in Q2 & Q3.
17. The company remains confident of achieving 20%+ growth in FY21.

Investor Conference Call Highlights:

1. The management attributes the stellar performance in Q1 to a solid business model portfolio of industry-leading brands, meticulous planning, and a unique go-to-market approach.
2. Gross margins have fallen in standalone level due to the addition of Isagro business which had a lower margin profile as compared to the residual product portfolio. But this fall in gross margins was mitigated by the fall in fixed overheads and thus the company was able to report EBITDA margin appreciation.
3. The industry has grown 10-15% YoY while PI maintained its pace by growing 1.5 times the industry growth.
4. The company has seen a huge growth in inquiries in the last 2-3 years with up to 50-60 inquiries coming in. It has also seen a rise in non-agro inquiries for R&D. It is also expecting 4 to 5 products getting commercialized and negotiations with the global customers for both AgChem and non-AgChem side.
5. The reason for the company not seeing an immediate increase due to quick product launches is that new molecules need 2-2.5 years to be fully commercialized.
6. The management maintains its previous capex guidance of Rs 550-600 Cr in the next 1-1.5 years.
7. Excluding the incremental revenue from Isagro, growth in domestic business has been >20% YoY.
8. The management has guided that it will take around 5-6 quarters to fully deploy the funds raised from the QIP.
9. Isagro revenues in Q1 were at Rs 99 Cr with Rs 69 Cr in domestic sales and Rs 30 Cr in exports.
10. Margins are expected to stay stable at current levels for the company going forward.
11. The management expects growth momentum in Isagro to remain at up to 5% in FY21.
12. The company has created 2 wholly-owned subsidiaries to expand its strategy for the pharma intermediates and advanced intermediate space.
13. The company currently does not have any plans to invest and set up manufacturing units for these new subsidiaries yet.
14. Generally, pricing in the domestic segment has improved YoY but it remains dependent on liquidity.
15. 3-4 years back, the company used to import 30-40% of RM requirements from China. Now, this number has gone down to <10%. This is mainly because the company has been able to develop a lot of alternatives in India and in geographies other than China.
16. The management has admitted that the company will indeed prefer to look to expand into the pharma adjacent segment using inorganic opportunities rather than creating infrastructure, getting new approvals, acquiring incremental customers, etc.
17. The company is also looking at opportunities to de-risk its concentration of operations in India.
18. It is also looking to acquire complementary technologies to broaden its product portfolio.
19. The management expects to maintain the Export-to-Domestic ratio of 70:30 going forward.
20. The management maintains that any projects that it chooses to deploy the QIP funds in have to be EPS and margin accretive.
21. The company is looking to start off MPP5 in Q2 as the regulatory system to be put there got delayed due to COVID-19.

22. MPP10 has seen the biggest impact from COVID-19 as the unavailability of the contractual labor in the desired number. Has caused some projects to get delayed by a few months.
23. The company has decided not to merge Isagro with PI as the addressable market for Isagro is different from PI. The management believes that a differentiated kind of go-to-market approach should help unlock tremendous value given the company's track record of bringing in new products, safer products.
24. Other synergies to rise form the Isagro acquisition will be common back-end services like finance, supply chain, etc. A key driver behind the acquisition was the underutilized capacities of Isagro. The management expects to double throughput and revenues from these assets in almost 3 years.
25. The company does not have any significant molecules that are going off patent in the next 2-3 years.
26. The 3 main areas to use the QIP funds are:
    - Expanding into adjacent segments
    - The derisking geographic concentration of operations in India
    - Acquiring new technologies
27. The management maintains that there are a lot of products in the R&D pipeline and the business model in CSM takes time to reflect changes and additions as products may require 1.5 to 2 years for product development, scale-up, and then commercialization.
28. In Isagro, the company will shift from focusing on the end of the life cycle products to a particular segment in fruits and vegetables and plantation crops. Thus product portfolio will also change over time and expand upon margins from the current level of 8-9% to >15%.
29. The management is guiding for 20%+ growth in CSM business.

Analyst's View:

PI Industries have been one of the most consistent performers in the agrichemicals business. The company saw a phenomenal performance in Q1 on the back of normal monsoons and the addition of Isagro. The China substitution phenomenon should provide the company with opportunities in both its native agrichemicals and the new adjacent space that it is looking to expand into. The company was able to successfully raise Rs 2000 Cr through QIP. It will be used to finance its expansion into adjacent segments and into expanding operations beyond India. It remains to be seen whether there are any other disruptions in-store from COVID-19 or whether the company will be able to match its lofty guidance for growth in all segments. Nonetheless, given the company's strong track record, strong tailwinds of the industry, a good agricultural season, and opportunities arising from the China substitution phenomenon, PI Industries remains a pivotal agrichemical sector stock to watch out for.

Sudarshan Chemicals

Financial Results & Highlights

Brief Introduction:

Sudarshan Chemical Industries is manufactures and sells a wide range of Organic and Inorganic Pigments, Effect Pigments and Agro Chemicals. The Company also manufactures Vessels and Agitators for industrial applications.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	332	384	-13.54%	370	-10.27%
PBT	33	63*	-47.62%	32	3.13%
PAT	24	45	-46.67%	34	-29.41%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	353	412	-14.32%	450	-21.56%
PBT	28	63*	-55.56%	30	-6.67%
PAT	19	43	-55.81%	27	-29.63%

*Includes exceptional item of Rs 19.32 Cr from the sale of its Industrial Mixing Solutions Division

Detailed Results:

1. Consolidated revenues were down 14.3% YoY. Profit was down 56% YoY and 29.6% QoQ in Q1.
2. EBITDA margin for Q1 was down 40 bps YoY to 15%. Without COVID-19, the EBITDA margin was expected to be at 15.4%. It is estimated that the plant shutdown caused a revenue loss of Rs 45 Cr and an EBITDA loss of Rs 12 Cr.
3. Exports stood at 64% of revenues in Q1 while 36% were from domestic sales.
4. Specialty chemicals continue to have stronger traction and saw lower de-growth as compared to non-specialty chemicals.
5. EBITDA for pigment business improved 370 bps QoQ but declined 60 bps YoY to 15.7% in Q1. Without COVID-19, this figure was expected to be at 17.1%. The estimated revenue loss and EBITDA loss in this business from COVID-19 were at Rs 45 Cr and 12 Cr respectively.
6. Gross margins improved to 44% in Q1 vs 41.1% a year ago.
7. ROCE declined to 11% in Q1 vs 14.6% a year ago.
8. Debt to equity was at 0.9 times.
9. Earnings per share declined to Rs 2.6 in Q1 from Rs 4.1 last year.
10. 15 days of production loss due to plant closure at Roha (Covid-19) in July, is expected to made up during Q2. The closure was due to Cyclone Nisarga.

Investor Conference Call Highlights

1. The improvement in gross margin is because of a continuous improvement in product mix and prudent pricing strategies. Margins have also benefited from a relatively stable raw material environment during the quarter.
2. The company is looking to reduce dependency on China for RM and is well stocked in major supplies for a while.
3. There hasn't been any major change in capex plans. Only the plans have gotten delayed by 6 months due to no availability of labour and the requirement for some of the commissioning of equipment where some of the company's people need to travel abroad.
4. The management maintains that there is indeed some tailwind for the Indian Chemicals industry from the China substitution phenomenon. The company is focussing on growing globally in the top 3 global players in the pigment industry. This is expected to involve the introduction of a much better product portfolio looking at some areas where the company can gain cost leadership.
5. Revenues for some of the previously guided blockbuster products will start coming in from next year onwards as these product launches may have been delayed from the delay in capex due to COVID-19.
6. The capex outflow in FY21 remains at Rs 250 Cr.
7. Net debt at the end of Q1 was at Rs 500 Cr.
8. The management expects to reach pre-COVID levels of production soon.
9. Domestic demand had recovered to 70-80% of last year in July. This is expected to rise to 90-100% in August.
10. In RM side, things are expected to stay stable at current levels going forward according to the management. Thus the management also expects current margins to persist going forward.
11. The biggest impact for the company is from the customer segment of the auto while the least impact in packaging as food packaging demand has risen.
12. The management maintains that the customers do not have enough bandwidth currently in labs to test the new products. Thus the company will be looking to focus on scaling production. As mentioned earlier, the realization for these new products is expected to be delayed by 4-6 months.
13. A very small amount of the company's capex in the next 2 years is for import substitution. Most of it is towards revenue generation and the introduction of new products and backward integration.
14. The pricing of products is expected to remain stable going forward. The company has taken price hikes in only a couple of products so far.
15. The revenue loss if Rs 45 Cr mentioned above is from plant shutdown
16. The management remains confident of making up for the production losses in Q2 and assures that the company has adequate capacity to fulfill this aim.

17. The management has stated that the third-largest player in pigments has sales of $500 million.
18. Most of the export traction for the company is coming from the USA, EU, and some parts of SE Asia.
19. The main areas the company is focussing on to drive its aim to crack the top 3 in the pigment industry are go-to-market experience & reach, comprehensive product portfolio, and cost leadership through backward integration.
20. The company is already looking at JVs for backward integration. It has also set up a special cell in R&D to develop some of these technologies that will focus on backward integration. This has already been done for 2-3 minor molecules.
21. Out of the company's proposed multi-year capex plan of Rs 1400 Cr, around Rs 450 Cr is already done while Rs 340 Cr is currently under execution.
22. The management has clarified that the revenue loss of Rs 45 Cr was for 1 week in June from Cyclone Nisarga. There will also be revenue loss in Q2 as the plant shutdown was till 15th July.
23. The capex of Rs 250 Cr from last has not started generating revenue yet and is expected to take 4-6 more months to do so.
24. The variance in forex loss from last quarter and gain in this quarter was Rs 10 Cr.
25. The management expects to add around Rs 200+ Cr to the company's debt in order to fulfill the multi-year capex plan for Rs 1400 Cr. Thus pea debt is expected to be Rs 700+ Cr.
26. Around 60-70% of capex from the pending Rs 1000 Cr is for capacity enhancement.
27. The payback period for this capex is expected to be around 4 years.
28. Currently, the company sources 25% of its RM requirements from China.

Analyst's View:

Sudarshan Chemicals is one of the largest pigment makers in the world. The company has done well to improve its gross margins steadily throughout FY20 and continue to do in Q1. The company did suffer a bit from the plant shutdown in Q1 from Cyclone Nisarga which led to a dip in EBIT margins. But the demand for the company products remains stable and the management expects to make up for this revenue loss in Q2 due to the steady demand. The company has a good opportunity for growth from the China substitution movement. It is also doing well to reduce dependence on China for raw materials and looking for opportunities for backward integration which would further its priority of establishing cost leadership. It remains to be seen how the domestic market will recover for the company and how long will it take for the company to reach its goal of cracking the global top 3 in the pigment industry. Nonetheless, given the company a strong position in both domestic and export markets and its steadily improving margins due to improving product portfolio, Sudarshan Chemicals is a pivotal chemical sector stock to watch out for.

CONSTRUCTION

KNR Constructions

Financial Results & Highlights

Introduction:

KNR Constructions is engaged in the business of infrastructure sector, primarily in the construction of roads, bridges, flyovers and irrigation projects.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	485	481	0.83%	683	-28.99%
PBT	57	59	-3.39%	86	-33.72%
PAT	40	48	-16.67%	67	-40.30%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	530	549	-3.46%	741	-28.48%
PBT	59	56	5.36%	93	-36.56%
PAT	42	45	-6.67%	75	-44.00%

Detailed Results:

1. The consolidated revenues for Q1 were down 3.5% YoY.
2. Consolidated PAT saw a decline of 6.7% YoY.
3. EBITDA for Q1 rose 12% YoY.
4. The consolidated EBITDA margin improved 310 bps YoY to 24.9% in Q1.
5. BOT toll operations were suspended from 1st April 2020 to 19th April 2020 which resulted in a Toll revenue loss of 19 days in Q1FY21.
6. The company has not opted for any form of the moratorium and continues to meet all of its debt obligations in time.
7. The EPC order book as of 30th June '20 is Rs 7208.9 Cr out of which 31% are captive HAM projects and 54% are irrigation projects.
8. The top 5 road projects are of Rs 2498.3 Cr while other projects consist of Rs 84074 Cr. Irrigation projects form Rs 3869.9 Cr of the order book. The company has an additional Rs 640 Cr worth HAM project which has not been included in the order book.
9. The order book distribution is:
    1. Arunachal Pradesh: Rs 82.2 Cr
    2. AP & Telangana: Rs 5255.9 Cr
    3. Karnataka: Rs 1210 Cr
    4. Kerala: Rs 9.6 Cr
    5. Tamil Nadu: Rs 651 Cr

10. The net-working capital days have risen to 66 days in Q1.

Investor Conference Call Highlights:

1. Till July, NHAI has awarded a project of about 460 km against the annual target of 4,500 km for FY '21 vis-à-vis a target of 3,211 km in financial year '20.
2. Construction across national highways has rebounded to 637 km in May from just 210 km in April.
3. The construction industry is expected to see a 10-13% decline in highway construction this year.
4. Toll collections have reached 73% of pre-COVID levels according to an industry report by CRISIL.
5. Of the company's 5 HAM projects, 4 have started construction and the progress in them is:
    1. Chittor to Mallavaram: 6%
    2. Ramsanpalle to Mangloor: 5%
    3. Trichy to Kallagam: 43%
    4. Magadi to Somwarpeth: 3%
6. The company expects to receive the appointed date for Palani by the first week of September.
7. The total equity requirement for all the 5 HAM projects is INR 624.28 crores of which we have already invested INR 223.49 crores as on June 30, 2020. The balance equity will be invested over a period of 3 years with an investment of INR 250 crores in balance at the end of FY '21, INR 110 crores in FY '22, and remaining INR 40.79 crores in FY '23.
8. The deal to divest 3 HAM projects, Trichy to Kallagam, Chittor to Mallavaram, and Ramsanpalle to Mangloor is on track. The discussion with Cube for sale of 100% stake in KNR Walayar Tollways Pvt. Ltd. for an enterprise value of INR 529 crores is in the final discussions of negotiations and the transaction is expected to be closed in the next 2 months.
9. The company is targeting a further order inflow of around Rs 2,000 Cr this financial year.
10. The management assures that 80-85% of manpower requirements will be met in all projects and around 80% efficiency should come back by Q3.
11. Essentially, the company only uses migrant labour to cover for 35-40% of requirements, and the rest is met using local operators and the workforce.
12. The land acquisition in the Palani project is at 72% as of 15th August 2020. The management to reach 80% by the end of August.
13. Irrigation projects are expected to yield EBITDA margins of 18-20% normally. Right now due to delay in payments it is coming out to be 16-17%.
14. The company does not have any plans for incremental capex for FY21.
15. The company has receivables of Rs 540 Cr pending from Telangana Govt at present. It expects this payment to be completed within the next 2 weeks.
16. The company has applied for 7 tenders orders already and plans to submit another 10 more bids in September. Most of these projects are above Rs 1000 Cr and 3-4 of them are of Rs 500-600 Cr in size.
17. The competition in tender bidding for NHAI projects has intensified with a few new entrants in the mix.
18. The company has received mobilization advance of Rs 102 Cr and retention money receivables are at Rs 163 Cr. Gross debt is at Rs 334 Cr. Consolidated debt is at Rs 1048 Cr.
19. The management does not expect any delay in payments from NHAI.
20. The new orders added in Q1 were the 2 new irrigation projects of Rs 2300 Cr.

21. The management expects the company to be able to achieve revenues of Rs 2250 Cr in FY21 and an additional Rs 200-300 Cr can be added depending on how execution on the irrigation projects goes.
22. The management cannot guarantee that margins will stay at current levels as key input prices like cement and diesel are on the rise.
23. The company is operating at 90% efficiency in day shift and is not operating at night shift. Overall work efficiency is at 70% at present in irrigation projects. In highway projects, efficiency is at 60%.
24. The dent went up in Q1 due to a delay in payments. As the payments come back debt will be reduced to previous levels.
25. The management believes that there may not be enough projects available in the future in the company's core area of highways and so it is good to go into other project areas and develop competence.
26. The rise in WC days was mainly due to COVID-19. The management doesn't see any further rise in WC going forward for the next 1-2 years.
27. There is an upcoming augmentation issue in Muzaffarpur-Barauni which will come up in the next 3-5 years. This is what is keeping the buyer away as it is making previous valuations uncertain.
28. The order backlog in irrigation projects is KP Sagar at Rs 84 Cr, Yedula at Rs 12 Cr, Mallana Sagar at Rs 518 Cr, Vattem at Rs 847 Cr. The new projects have added Rs 1600 Cr and Rs 695 Cr.
29. Unbilled revenue from Telangana is Rs 440 Cr and the company also has additional work done but not certified of Rs 180 Cr.
30. The management has stated that it doesn't expect debt to rise as the company is expecting inflows from the Telangana payment and the sale to Cube Highways.
31. The company will see higher levels of depreciation due to the addition of big irrigation projects. The Net Block is at Rs 75 Cr while the gross block in Q1 was at Rs 300 Cr. The depreciation is expected to rise to Rs 150-160 Cr in FY21.
32. Irrigation revenue in Q1 was at Rs 108 Cr.
33. The company may have to do a maximum capex of Rs 100-120 CR to purchase some cranes for additional projects if the need arises.
34. Of the Rs 475 Cr of debtors at the end of Q1, Rs 127 Cr is from irrigation and the balance is from road projects. Out of the remaining Rs 348 Cr, Rs 20 Cr is from Tirumala and another SPV. Of the Rs 348 CR, the company has already received Rs 180 Cr in July.
35. The main areas for negotiation for the Cube deal were the high rise in project insurance and revenue shortage during the COVID period and lockdown periods.
36. The company has stayed away from expressways tenders in the past but it will be interested in bidding for them in the future in MP, Maharashtra, and other states.
37. The only major capex to be done this year is for a pump house in an irrigation project. The project designs are yet to be approved.
38. The management remains confident that the NHAI will be able to meet its target of tendering of 4500 km in FY21 based on the rapid pace it is setting on land acquisition.

Analyst's View:

KNR has been one of the top performers in the construction industry. Despite the industry headwinds and the general plight of the companies in this sector due to delay in payments from NHAI, KNR has been able to continue to improve its margins substantially. The company has been able to weather the severe issues regarding land acquisition and labour crisis which it met earlier this year. The management expects labour to start coming back after monsoons but it remains to be seen whether the company to get back to normal operating levels at its prescribed time. The company has done well to win crucial irrigation projects in Q1 and reduce dependence on highway projects. It remains to be seen how the industry will fare going forward and how long will it take for the Govt's push in infrastructure to gain proper momentum. Nonetheless, given its strong balance sheet, good operational history, and resilient order book, KNR Constructions remains a pivotal construction sector stock to watch out for.

CONSUMER ELECTRONICS

Amber Enterprises

Financial Results & Highlights

Brief Introduction:

Amber Enterprises India is engaged in the business of manufacturing a versatile range of products i.e. Air conditioners, microwave ovens, washing machines, refrigerators, heat exchangers, sheet metal components etc. Currently, the Company has nine manufacturing facilities in India out of which two manufacturing facilities are operating in tax exemption zone.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	194	1001	-80.62%	1045	-81.44%
PBT	-29	76	-138.16%	52	-155.77%
PAT	-19	49	-138.78%	53	-135.85%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	262	1242	-78.90%	1315	-80.08%
PBT	-36	92	-139.13%	70	-151.43%
PAT	-24	64	-137.50%	63	-138.10%

Detailed Results:

1. The company dismal quarter with a decline of 79% YoY in consolidated revenues while consolidated profits fell to a loss of Rs 24 Cr.
2. Operating EBITDA for Amber was at Rs (3) Cr.
3. The pent-up demand from retail-led to the release of high inventory levels from the channel, which in turn led to an increase in manufacturing orders by OEMs.
4. The management expects normalcy to return by Q3/Q4.
5. The consolidated revenue mix changed from 69:31 to 61:39 for RAC: Components respectively.
6. The increase in contribution was due to early resumptions and order execution from Sidwal for the Mobility Application business.
7. The performance for subsidiaries was:
    1. Sidwal: Sales of Rs 30.1 Cr, EBITDA of Rs 5 Cr
    2. IL JIN: Sales of Rs 16.7 Cr, EBITDA of Rs (1.7) Cr

3. EVER: Sales of Rs 16.8 Cr, EBITDA of Rs (1.2) Cr
4. PICL: Sales of Rs 8 Cr, EBITDA of Rs (1.8) Cr

Investor Conference Call Highlights:

1. The company was operating at 50-60% capacity in June.
2. The Govt of India is looking to implement a phased manufacturing plan, for room air conditioner and its components, under which import duties will be hiked in a phased manner over the period of 5 years; to bring air conditioners under the licensing system, and to also introduce a production-linked incentive scheme for air conditioners.
3. The company is also seeing good inquiries and RFQs from global RAC players for China Plus One strategy for both finished units & components.
4. PICL has successfully widened its product offering from current PFC motors to BLDC motors and is in discussion with various customers to launch motors for washing machines and higher-voltage motors for commercial leasing segment. It has also been approached with RFQs from various large global manufacturers based out of the U.S. and the Middle East. The management expects PICL to double in revenues in the next 2 years.
5. The management remains confident of increasing market share for IL JIN and EVER as the market moves towards inverter ACs.
6. The order book in July was at 65-70% of last year's figure. The company saw around 1.5 million RAC units moving out of inventory in Q1.
7. The company is developing prototype models for the USA which it expects to launch by December or January. The company may need to add additional capacity once policy reforms are announced for the AC industry. The company currently has an annual capacity of 5 million units.
8. The expected capex for these estimated expansions is around Rs 150 Cr which is to be distributed across 2 years.
9. The management expects the component ecosystem to rise due to the PLI schemes for the RAC industry which will be beneficial for the company even if it doesn't manage to get any gains in the RAC space.
10. The net working capital days for Sidwal were reduced from 180 to almost 83. Sidwal also plays a role in defense applications. This margin expectation for Sidwal remains strong.
11. The company has already gotten an order from a Japanese client for washing machine motors from PICL. It is also developing a unique motor for US markets.
12. The company has taken an enabling provision up to Rs 500 Cr capital raise. This can be used for both organic (expanding production capacity) or inorganic (acquisition) opportunities.
13. The compressor ecosystem is starting to come up in India. There is a company in Ahmedabad called Highly which has 2.4 million capacity while GMCC, the largest compressor manufacturer in the world, is also opening up a factory in India with an initial capacity of 1.5 million which can be

scaled up to 6 million. A large Japanese player is also looking to add a compressor plant in India. All in all, the management believe that dependence on China for compressors will come down a lot in the next 2 years.

14. The industry is has done a joint meeting with Hindalco for setting up a facility for aluminum foil which is instrumental in making PCB invertor boards.
15. Volumes sold in Q1 were at almost 200,000 units vs almost 1 million sold last year.
16. Margins were down for the quarter because the majority of sales were for IDUs which are mostly imported.
17. Gross debt for the company is at Rs 550 Cr while cash is at Rs 150 Cr.
18. The management expects around 35% of motors business to come from exports as compared to only 10% last year.
19. The company is competitive in all segments except some in finished goods for 1 ton and below.
20. The management has stated that it will take some time for the company to properly scale up exports especially for components as it takes about 4 to 5 years to build up being a standard supplier to any large customer or multinational companies.
21. According to the management, the basic weak spot for the compressor ecosystem is the basic RM of electrical steel which is import-dependent.
22. The company has bagged orders of Rs 115 Cr since that start of the pandemic. Its order book currently stands at Rs 555 Cr.
23. The maintenance capex per year for the company is currently at Rs 28-30 Cr.
24. The management has stated that the company can deliver around 8-9 times asset turnover in motors while in heat exchangers it can deliver up to 5 times.
25. The PLI scheme has not been finalized but it is expected to have 3 main objectives which are:
    - Cater to exports
    - Create global Indian champions by making them more competitive
26. The management believes that Amber is well suited for this scheme as it is the most backward integrated with the industry and it has a good position in the components ecosystem and export prospects.
27. The competitive landscape of the AC industry in India is expected to remain the same and only the import dependence is expected to reduce due to the proposed changes in the industry.

Analyst's View:

Amber Enterprises has cemented its position as a prime AC and white good components manufacturer in India. The performance of the quarter was marred by the disruption from COVID-19. The demand has been steadily rising since after the lockdown. The industry is widely expected to come back to normalcy by Q3/Q4. Despite the loss of sales and reduced activity in 3 of the peak months for the company, the management is optimistic about the company's prospects due to the increased opportunity from import substitution of Chinese products in RAC and components businesses as well as the upcoming PLI scheme for the RAC industry. It remains to be seen whether there are any more large scale manufacturing disruptions to come from COVID-19 and whether the company will be able to maintain its optimistic expectations in the exports and components space. Nonetheless, given the massive opportunity size from import substitution, the growth prospects of the industry, and the company's dominant position in the ODM market, Amber Enterprises remains a pivotal stock in the fast-rising air conditioning industry.

Blue Star

Financial Results & Highlights

Brief Company Introduction

Blue Star is India's leading air conditioning and commercial refrigeration company, with an annual revenue of over ₹5200 crores (over US$ 750 million), a network of 32 offices, 5 modern manufacturing facilities, 2800 employees, and 2900 channel partners. The Company has 5000 stores for room ACs, packaged air conditioners, chillers, cold rooms as well as refrigeration products and systems, along with 765 service associates reaching out to customers in over 800 towns.

The Company fulfils the cooling requirements of a large number of corporate, commercial as well as residential customers. Blue Star has also forayed into the residential water purifiers business with a stylish and differentiated range including India's first RO+UV Hot & Cold water purifier; as well as the air purifiers and air coolers businesses.

Blue Star's other businesses include marketing and maintenance of imported professional electronics and industrial products and systems, which is handled by a wholly owned subsidiary of the Company called Blue Star Engineering & Electronics Ltd.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	534	1494	-64.26%	1231	-56.62%
PBT	-44	105	-141.90%	35	-225.71%
PAT	-31	74	-141.89%	33	-193.94%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	635	1598	-60.26%	1306	-51.38%
PBT	-30	108	-127.78%	12	-350.00%
PAT	-20	75	-126.67%	8	-350.00%

Detailed Results:

1. The company had a consolidated revenue decline of 60% YoY in Q1. PAT was at a loss of Rs 20 Cr.
2. Carry forward order book for the company grew slightly to Rs 2923 Cr as of 30th June 2020.
3. Net borrowings increased to Rs 429 Cr from 0 a year ago. Debt to equity was at 0.6 times.
4. The company raised Rs 350 Cr during the quarter through the issuance of non-convertible debentures to fund working capital and to build sufficient liquidity on the Balance Sheet.
5. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems declined 50% YoY in Q1. Order inflow in Q1 was reduced to Rs 267 Cr due to the lockdown. Only 10% of sites were operational in Q1.

6. The Carried-forward order book of the Electro-Mechanical Projects business was Rs 2040 Cr as on 30th June 2020.
7. Commercial AC business saw a fall in billings of 66%. Major orders bagged in Q1FY21 were from Patna Medical College, ThyssenKrupp (Nagpur), and MMRCL COVID Hospital (Mumbai).
8. In the unitary products segment, the company saw a revenue decline of 69.7% YoY in Q1. Revenue and profits in this segment were heavily affected by the lockdown in the peak selling summer season. RAC business shrank 65% YoY while the e-commerce channel gained traction with sales growth of 12% YoY.
9. The company bagged major orders in commercial refrigeration from Odisha State Medical Services Corporation, Royal Cold Chain (Azadpur Mandi), and Indian Immunologicals Limited in Q1.
10. The Professional Electronics and Industrial Systems business saw revenue fall to Rs 39 Cr from Rs 45 Cr last year. The segment continued to do well on the back of digitization initiatives in the BFSI sector.
11. The company expects demand for RACs and commercial refrigeration to normalize by Q4FY21.

Investor Conference Call Highlights:

1. The management reiterates the aim of the water purifier business to reach a market share of 2.5% in FY21. This business is expected to breakeven in the year ahead.

2. Inventory in RACs is at 30 days. The company expects the RAC market to have recovered 70-80% in July. Q2 revenues are expected to be at 80% of normal levels with Q3 at 90% of last year's levels.

3. The company has raised debt only to maintain sufficient liquidity in current uncertain times and to have sufficient working capital financing at hand.

4. Commercial real estate is seeing postponement or sale of projects due to liquidity constraints. Thus the company is being cautious and evaluating each customer's individual credit risk profile before accepting any new projects.

5. The company had a target to reduce dependence on China for RM including components to 15% by 2023 even before the Amtanirbhar movement which it is expediting.

6. Currently, India doesn't have a scale for compressors or motors or drives. This is an issue that affects the whole industry.

7. The management expects 5-10% market growth in RACs even under current uncertain conditions in FY21.

8. In the overall recovery of 70% in RACs, the North has seen revenue recovery of up to 85% in June.

9. The management has stated that the RAC industry has seen prices drop as inventory levels were high.

10. Before lockdown, the company had 150 sites running in the EMP division. Currently, only 50 sites are operational with 50% manpower to maintain safety standards.

11. The company is only dependent on China doe IDUs and it expects to complete indigenization of IDUs by the end of the year. The management is stating that just raising custom duty for imported goods from China is not the best way to go and the govt should instead support local production with incentives and subsidies.

12. The management has mentioned that it is not looking to get into making all components. It is not looking to get into compressors or motors.
13. The current market share in water purifiers is 0.
14. The provisions taken by the company in the EMP division is around Rs 15 Cr.
15. The company is seeing a 34% market share in water coolers. The company expected god traction in air purifiers but it failed to take off. The company expects this product to come back in vogue once air pollution comes back to previous levels. The market size for this product is estimated to be Rs 50 Cr.
16. RAC production started from the 2nd week of June. The management has stated that the prices have dropped despite comfortable levels of inventory for the industry mainly as most of the peak season of summer didn't see sales and everyone is looking to get some sales done before the end of the peak season.
17. The management is optimistic that the commercial refrigeration business will see good recovery from July. Demand for deep freezers is expected to come back from Q3 onwards. Water coolers also should see demand coming back at the same time.
18. The management expects cost savings in FY21 to be around 40%. Around 50% of this cost reduction is expected to be sustainable.
19. The management has stated that the company will aim to keep net borrowings at below Rs 400 Cr for FY21.
20. The energy level was expected to come in Jan 2021. This is expected to get postponed to July 2021.
21. The management has stated that it is hard to match Chinese manufacturing costs for components anywhere in the world. Thus the best compromise may be to invite a Chinese manufacturer to set up operations in India where it is possible to reach the goal of increasing local employment and keep prices in check.
22. The company is currently executing projects in 3 airports in Bangalore, Chennai, and Delhi.
23. The company continues to focus on projects with good cash flows and the focus is mainly on infra projects where the funding is assured through JICA or Asian Development Bank or any other big authority.
24. The company had plans to move around 60% of its RAC portfolio into an affordable premium segment. Now it is looking to put 80% of its portfolio in this category. This is because 65% of sales are coming from Tier 3,4,5 cities and rural areas which the management expects to rise to 75%. Another reason for this move is that the management believes that growth in the RAC industry will be led by the middle class and Tier 3, 4, 5 towns.
25. The management has stated that it is still too early to comment on the growth of e-commerce for the company.

Analyst's View:

Blue Star is one of the largest cooling solutions providers in the country. It is one of the biggest branded players in the RAC market. The company has seen a massive decline in revenues and profits for Q1FY21. The major reason for this performance was the disruption in sales across all divisions from COVID-19 and lockdown especially in the unitary business where sales didn't happen in the majority of the peak season. The company has done well to keep enough inventory to meet demand after the lockdown opened. It remains to be seen whether the estimations of industry revival remain on track as mentioned by the management and whether there are further disruptions in store from the evolving COVID-19 situation. It will be interesting to see how the company will achieve its ambitious target of expansion and capture of 2.5-3% market share in the nascent water purifier segment which currently stands at n0 market share. Nonetheless, given the company's strong market presence, its history of successfully completing EMP projects, and its robust presence in semi-urban and rural India, Blue Star is a pivotal white goods stock to watch out for.

Dixon Technologies

Financial Results & Highlights

Brief Introduction:

Dixon Technologies (India) Limited is the largest home grown design-focused and solutions company engaged in manufacturing products in the consumer durables, lighting and mobile phones markets in India. Its diversified product portfolio includes Consumer electronics like LED TVs, Home appliances like washing machines, Lighting products like LED bulbs and tubelights, downlighters and CFL bulbs, Mobile phones like feature phones and smartphones, Security Surveillance Systems like CCTV & DVRs. The company manufactures and supplies these products to well-known companies in India who in turn distribute these products under their own brands.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	466	936	-50.21%	768	-39.32%
PBT	2	31	-93.55%	40	-95.00%
PAT	2	20	-90.00%	30	-93.33%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	517	1147	-54.93%	857	-39.67%
PBT	2	36	-94.44%	37	-94.59%
PAT	2	24	-91.67%	28	-92.86%

Detailed Results:

1. The company had a dismal quarter so far with Q1 revenues remaining falling 55% YoY and profits falling 92% YoY.
2. The EBITDA margins for the company have fallen by 130 bps to 3.3% in Q1FY21.
3. Segment-wise Q1 Revenue performance is as follows:
    1. Consumer Electronics: Down 32% YoY (67% of current revenues)
    2. Lighting Products: Down 76% YoY (15% of current revenues)
    3. Home appliances: Down 76% YoY (5% of current revenues)
    4. Mobile Phones: Down 63% YoY (10% of current revenues)
    5. Security Systems: Down 80% YoY (3% of current revenues)
    6. Reverse Logistics: Down 42% YoY (0.3% of current revenues)
4. The company had a positive cash conversion cycle of 9 days. The cash conversion cycle was distorted due to weak revenues in Q1. This expected to normalize in Q2.
5. It had a ROCE of 26.1% and ROE of 20.8%.

Investor Conference Call Highlights:

1. The company had 0 revenues in April and was back to 70% of normalized revenues in June.
2. The company has a strong order book in LED TVs which is greater than its current capacity. Post capacity expansion, the company expects to service 33-34% of the total demand of 14 million in India.
3. In Lighting, the company is back to 85-90% of normal levels currently. In July, it sold almost 13 million LED bulbs and almost 1 million battens.
4. In Washing Machines, the company has an order book of almost 120,000 machines a month.
5. The third line for washing machines is expected to be operational within August.
6. The company has a cash balance of Rs 64 Cr.
7. The company has filed 2 applications for the PLI scheme for smartphones.
8. Dixon has acquired new customers in LED TVs like Samsung, Nokia, Toshiba, Hisense, and the private label of Flipkart.
9. The company expects to offer full solutions in the smart category soon to a very large brand.
10. The capacity expansion on the PCBA side is expected to be completed within August.
11. The company has completed capacity expansion in the lighting division. It has added a major customer in the private label of Reliance in this segment in Q1.
12. The company's expansion and the new factory in the Tirupati campus for fully automatic top loading is on schedule. The company expects to complete trials in this location by December.
13. The company has built up an order book of almost 800,000 to 1 million set-top boxes per month which is expected to generate a revenue of almost Rs 1,000 Cr next year.
14. The company is expected to start making Quattro RT-PCR analyzer machine for COVID-19 within August.
15. The budgetary allocation of incentive in the mobile PLI scheme is around Rs 41,000 Cr to be distributed within 5 companies. The turnover limits in this scheme are around Rs 500 Cr to Rs 2000 Cr with a 6% incentive. Despite TCL setting a factory in Tirupati, the management is not worried and is confident of Dixon maintaining cost competitiveness.
16. The management remains confident that the company should be able to set up the plant and get it running within the next 4 months and achieve the threshold turnover and cross-sell within the next 7 months.
17. The management expects to see a slight improvement in margins in the coming quarters in lighting and TV segments. This is primarily due to the ongoing shift towards larger screen sizes.
18. The company already is installing 7 automated lines in the Lighting segment currently at its Noida plant. The margin improvement from these new lines is expected to be around 1.5-2%.
19. The net debt as of the end of Q1 was at Rs 55+ Cr. Gross debt is at Rs 125+ Cr.
20. The normal capex run rate for Dixon is at Rs 80-90 Cr per year. If the company gets approved for the PLI scheme, then these figures shall rise to Rs 130-140 Cr.
21. The company will raise additional debt if it fails to meet the higher capex run-rate using internal cash generation.
22. The management expects to see significant growth in ROCs coming mainly from this mobile strategy from next year.
23. If the company gets approved for 1 PLI scheme, then it expected to make around 50-60% for exports. The end product mix shall then shift towards high-end phones.
24. The management expects to generate smartphone sales of Rs 3000-4000 Cr by year 4 or so.

25. The impact on working capital was mainly from delay on shipments, which led to a delay in production and delay in booking the sales. All this started due to a delay in custom clearances for both Samsung and Xiaomi.
26. The company is not looking to do any capex to expand the Set-top box segment.
27. The 7 automated lines in lighting in Noida are expected to account for 1/3rd of the total volumes going forward.
28. Jio remains a strategic customer for Dixon and it will be looking to explore further opportunities with Jio in the future. Currently, it has contracts to make only set-top boxes for Jio. It is doing both the hybrid set-top box and the cable set-top box now.
29. The expansion in the fully automated washing machine is expected to be completed by Q3 with trials in December. The company is launching 40-45 models here and has already gotten an anchor customer for this line.
30. The company has already shipped its first consignment for anchor customers in LED exports to the USA & Indonesia. It is also in talks with large retail chains. The management remains confident of wins in the coming quarters in lighting exports.
31. Per unit realization for sub $200 mobiles for the company remains at around Rs 5000-6000.

Analyst's View:

Dixon Technologies is one of the foremost leaders in the electronics manufacturing and outsourcing industry in India. The company has done well to scale up its different diverse divisions: lights, consumer appliances, mobiles, etc. It has also acquired many marquee customers along the way. The current quarter was dismal for the company mainly due to production shutdown during the lockdown. Demand is expected to come back fast in all of its segments and the company is also hopeful of expansion in mobiles on the back of the PLI scheme and LED exports. The company has also successfully installed 7 fully automated production lines in Lighting in Noida plant which should margin appreciation in the future. It remains to be seen whether the company will qualify in its application for the PLI scheme and what obstacles it will face that may threaten to halt its growth momentum. Nonetheless, given the list of marquee customers that the company has gained and retained over the years and its continuous efforts to expand existing capacities like consumer electronics and adding new product lines like disruptive medical devices, Dixon Technologies is cementing its place as a good growth-story in the outsourced manufacturing sector in India.

EXCHANGE

BSE

Financial Results & Highlights

Introduction

BSE was established in 1875 and is Asia's first Stock Exchange and one of India's leading exchange groups. Over the past 144 years, BSE has provided a capital-raising platform and provided a platform for trading in equity, debt instruments, derivatives and mutual funds. It also has a platform for trading in equities of small-and-medium enterprises (SME).

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	138	142	-2.82%	131	5.34%
PBT	35	41	-14.63%	1	6900.00%
PAT	32	34	-5.88%	2	1500.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	162	166	-2.41%	156	3.85%
PBT	40	50	-20.00%	6	566.67%
PAT	32	41	-21.95%	-2	1700.00%

Detailed Results:

1. Sales for Q1 were slightly down with consolidated revenues falling 2.4% YoY. Consolidated PAT fell a greater 22% YoY.
2. EBITDA margin for Q1 was at 35% vs 36% last year.
3. Average daily turnover rose 39% YoY in the Equity Cash segment. TC revenue in the segment on the other hand fell 26% YoY.
4. Equity derivatives saw a meteoric rise of nearly 15 times in Weekly Average Daily Turnover and Weekly Average Daily Number of Contracts Traded in the past 5 weeks.
5. There has also been an over 6X increase in average daily turnover after shifting of weekly expiry of SENSEX 50 derivatives contract from Thursday to Monday w.e.f. June 29, 2020.
6. Currency derivative segment saw a drop in average daily turnover of 30%+ YoY. It also saw Average Daily Number of Contracts Traded fall to 2.41 million in Q1 from 4.41 million last year. BSE's market share in this segment was at 31%.
7. In the commodity derivatives segment, average daily turnover rose almost 2 times YoY. BSE introduced Commodity Options in GoldM and SilverKG and also launched the world's only Almond Future Contracts.
8. BSE Star MF saw MF revenue rise 19% YoY with Average Daily Value of Orders rising 59% YoY in the same period.

9. Average Daily Number of Orders in the platform rose 54% YoY and SIP orders rose 53% YoY. Equity transactions in Average Daily Number of Orders rose 48% YoY while debt transactions more than doubled in the same period.
10. In the services to corporates segment, listing fees have fallen 11% YoY. Only 19 Securities has been listed in Q1 vs 39 done last year. This fall is entirely attributable to COVID-19.
11. In the India International Exchange IFSC, total turnover declined 23% YoY.
12. Consolidated earnings per share were at Rs 7.09 in Q1 vs Rs 7.86 last year.

Investor Conference Call Highlights:

1. BSE has added 740 IFAs / Members over the last four months taking their total up to 57,413 as of 31st July 2020.
2. BSE has partnered with LIC Mutual Fund for e-KYC services on BSE StARMF Platform.
3. BSE Ebix Insurance Broking Private Limited, a JV of BSE with Ebix Fincorp Exchange Pte Ltd, has successfully launched Health insurance products on 3rd June 2020 and Life Insurance products on 13th July 2020 in addition to Motor Insurance products which was launched on 7th February 2020. BSE owns 40% in this JV through BSE Investments Limited.
4. In BSE BOND, during Q1 around 179 issues have successfully raised over Rs.1.17 lakh crore through this platform. BSE's market share in this segment is 58%.
5. Along with PTC India and ICICI Bank, BSE had filed a petition with CERC for grant of license for setting up a new power exchange which is currently pending approval. The company owns 41.08% of this entity which will be brought down to 25% as per regulatory requirements.
6. The company has total cash of Rs 1400 Cr.
7. The company may look into demerging the BSE Star platform if the board approves to do so.
8. The company had reduced TC for AMCs on BSE Star owing to competitive pressure from NSE and AMFI's collective pressure on BSE.
9. Currently, there are no plans for redistributing the cash reserves. The cash reserves are there due to the high requirement for regulatory capital.
10. The company will however continue to do more than 90% of standalone payout to shareholders.
11. NSE is basically doing cross-subsidization where it reduces prices in new segments to gain market share using earnings from established segments.
12. The major change in equity derivatives is the shift to Sensex 50 which is around 200-300 points closer to NIFTY and changing the weekly expiry to Monday instead of Thursday.
13. The yield in investment paper has changed in response to change in mark to market movement.
14. The management has stated that the company will definitely enter into the electricity futures market in the future.
15. The management has stated that the company will continue to focus on volumes in equity and equity derivatives and the BSE Star MF platform and the INX.
16. The company is indeed looking to increase its global footprint and the establishment of INX was the first major step in this direction.
17. The company no longer needs to keep billing clients who are defaulting in payments due to change in regulations in SEB which allows the company to suspend such companies. BSE has suspended around 1000 such entities.
18. BSE still is the second largest commodity exchange in India. The 3rd largest exchange has less than 25% of BSE's volumes. The management anticipates shift of volumes from futures to options for commodity traders in the industry and BSE seems in prime position here considering that BSE is the largest marketplace for commodities options in India and the 2nd largest in notional value.

19. The company is looking to take up many matters with SEBI regarding the various anticompetitive practices done by rival NSE according to the management.
20. The company is still not charging anything on commodity options and futures as it wants to reach a baseline in volumes before starting to charge TC on them. The company will indeed avoid premature charging as it may take away liquidity.
21. The company currently does not have any plans for the real estate assets that it owns.
22. BSE Star accounts for around 40-50% of revenues for the company. It yields around Rs 15-16 Cr of profit.
23. The company doesn't have any distinction between direct and indirect transactions on BSE Star.
24. The company charges a flat rate of Rs 5 per transaction to every AMC.
25. INX now accounts for 5-6% of USD INR derivatives market as compared to SGX and DGCX.
26. The company currently doesn't have any marketing or promotions in place for the BSE Ebix insurance platform. It will start to go to market aggressively once COVID-19 recedes.
27. This new platform will be a direct competitor of PolicyBazaar but will have the additional advantage of having physical sales channels through POS distributors while PolicyBazaar is purely web-based. Another differentiation here would be that Policybazaar doesn't help in final execution which is taken care of by the end insurer while the JV will provide end to end execution.
28. TC income in the equity segment has fallen YoY as a physical settlement which earned high TC has been stopped by SEBI.
29. The management has stated that the company is welcome for any strategic investor to come in and it will issue fresh new shares to anyone coming in.
30. The company's market share in the entire commodities market is 7.42%. Its market share in Gold minis is 58% and gold options account for 22% of commodity volumes for the company.

Analyst's View:

BSE is the largest stock exchange in the world in terms of listed entities. The company has been in this industry sector for close to 150 years and are still at the forefront of the industry in terms of technology and access to tradable products. The company is doing well to maintain its strength in the equity and commodity derivatives space and continue the growth momentum of BSE Star. Along with the BSE Star MF and international exchange business, the company has launched another platform in a JV with Ebix for insurance to add another future engine for growth. The company faces tough competition from other rivals especially NSE in the emerging segments like BSE Star which has forced them to reduce charges for the platform. It remains to be seen how the company will be able to fend off the competition and handle the trio of new growth businesses going forward. Nonetheless, given the company's long-standing brand value and its market execution experience and the potential of its new businesses, BSE can turn out to be a dark horse wealth creator in the next few years.

Indian Energy Exchange

Financial Results & Highlights

IEX is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates, and Energy Saving Certificates. The exchange platform enables efficient price discovery and increases the accessibility and transparency of the power market in India while also enhancing the speed and efficiency of trade execution. In August 2016, the Exchange received ISO Certifications for quality management, Information security management, and environment management. The Exchange is now a publicly listed company with NSE and BSE. IEX is approved and regulated by the Central Electricity Regulatory Commission (CERC) and has been operating since 27 June 2008.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	81	70	15.71%	79	2.53%
PBT	58	55	5.45%	59	-1.69%
PAT	43	40	7.50%	47	-8.51%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	81	70	15.71%	80	1.25%
PBT	56	55	1.82%	58	-3.45%
PAT	42	40	5.00%	46	-8.70%

Detailed Results:

1. On a standalone basis, PAT was up 7.5% YoY while revenue for the quarter was up 16% YoY largely on account of the increase in overall volumes.
2. Q1 saw an increase of 14.5% YoY in exchange volumes despite overall energy consumption declining 16% YoY.
3. Exchange power prices were down 26% YoY which yielded significant savings for distribution utilities and Industries.
4. Consumption started rising towards June which saw rise 28.7% MoM.
5. The newly launched real-time electricity market commenced on 31st May 2020 and now accounts for 10% of total volumes.
6. The Indian Gas Exchange commenced operations on June 15, 2020 and traded a total of 9600 MMBTU of gas within the first 15 days of launch.

Investor Conference Call Highlights:

1. Renewable capacity in the domestic space grew 10% YoY while thermal production contracted 23% in the same period.
2. The company made a contribution of Rs 5 Cr to COVID CARES fund and had a tax liability of Rs 2.6 Cr. Without these non-recurring items, PAT growth would be at 18% YoY.
3. On July 10th Ministry of Power released an office memorandum that should facilitate the introduction of long-duration power contracts. The longer-duration, delivery-based forward contracts, and derivative contracts are expected to alter the way power is procured in our country because you get a hedge over a long period of time.
4. The company hopes to launch long-duration power contracts in Q3.
5. The management is clearly seeing the need for derivative at this stage because the dependence of Discoms in the stock market is increasing.
6. The company is going to launch the forward market in the IEX platform while it is looking at other options for the pure financial product where the company may need to float a new company to operate it.
7. The management has stated that derivative volumes are higher than spot volumes everywhere around the world and this should also be the case here.
8. The company is expecting the market size for the forward & futures combined to be around 20 billion units.
9. IGX is currently owned 100% by IEX and GAIL has issued an expression of interest to invest 26%. There are also other proposals and inquiries from big gas players in the works currently.
10. The company wats to maintain a majority shareholding of at least 51% in IGX at the end.
11. There is indeed a regulation that states that a neutral player should hold 15% at most. The company is reviewing the situation and looking to talk to the regulator regarding this.
12. The management has maintained a neutral stance on the issue of power coupling which was included as a provision in the draft of PMR 2020.
13. The management has stated that the transaction margin cannot be changed easily and needs approval from CERC to be changed in any direction.
14. The long duration derivative contracts will be under SEBI and the company is looking to collaborate with the exchange in India to make this new company to launch energy derivatives. The company will also be formed such that all delivery happens on IEX.
15. The management has stated that cash-settled electricity futures will also be available and these can also be converted to electricity on the spot.
16. Currently, the company has a weekly contract as the longest contract. With the launch of the longer duration contracts, the company will be looking to offer monthly, quarterly, and annual contracts.
17. The intraday market has been cannibalized by the RTM market. Around 80-90% of volumes have shifted.
18. The REC fee in Q1 was at Rs 4.35 Cr.
19. TAM volumes accounted for less than 5% of total volumes.
20. The management expects that every buyer would want to play in the whole basket to figure out what is the optimum procurement program for themselves.
21. The management has stated that if the 3 functions of the price coupling operator, the exchanges & clearing, and settlement mechanism need to separate, then the company can easily do so.

Analyst's View:

IEX is the first and largest energy exchange in India providing a nationwide, automated trading platform for physical delivery of electricity, Renewable Energy Certificates, and Energy Saving Certificates. It has a very asset-light business model and a strong Balance Sheet. In the last several years it has done well by constantly adding new products and improving offerings for the participants on its platform. With the share of renewable energy rising in total energy consumption, the future of IEX looks very exciting. However, it seems that competition in this sector is also increasing at a rapid pace. It remains to be seen how the whole COVID episode plays out to understand its impact on IEX. However, the company seems to have the financial muscle to tide over the disruption of COVID. It is still very early days in the power exchange market. However, as on the date, IEX looks like a pivotal player in this industry.

FMCG

CCL Products

Financial Results & Highlights

Brief Company Introduction

CCL Products (India) is engaged in the manufacturing of instant coffee. The Company operates through the Coffee and Coffee related products segment. It is engaged in the manufacture of soluble instant spray dried coffee powder, spray dried agglomerated/granulated coffee, freeze-dried coffee and freeze concentrated liquid coffee.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	176	265*	-33.58%	245	-28.16%
PBT	24	102	-76.47%	111	-78.38%
PAT	17	82	-79.27%	96	-82.29%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	289	274	5.47%	267	8.24%
PBT	46	54	-14.81%	58	-20.69%
PAT	38	35	8.57%	42	-9.52%

*Includes a dividend of Rs 58 Cr from Ngon Coffee.

Detailed Results:

1. The company had a modest quarter with sales growth of 5.5% YoY and PAT growth of 8.6% YoY.
2. Consolidated figures were boosted due to the low impact of COVID-19 on Vietnam operations as compared to its impact in Indian operations.

Investor Conference Call Highlights:

1. The standalone EBITDA margins declined drastically mainly due to loss of operations from lockdown in Q1. The freeze-dried portion also declined almost 50% which led to further margin decline.
2. In major markets like Russia, the majority of shipments have been postponed and thus the company was mainly planning for maintenance in Q1 and to gear up continuous production for the rest of the year.
3. The SEZ plant is up and running and the EOU plant will start running after maintenance is completed in a few days.
4. There has been a slight decline in roasted ground coffee consumption because of the coffee shops being shut across the world during the lockdown period.

5. On the other hand, the in-home segment of instant coffee seems to be increasing across the world.
6. 90% of the consumption of instant coffee is in the in-home segment.
7. The company has only 10-15% of its total capacity in small packs. There is a value addition of $2 per small pack and there is also 15-20% incremental EBITDA.
8. The company did have many postponements but it didn't lose any orders or customers.
9. The company's sales of single-serve packs have increased a lot. It is also looking to get into the single-serve capsule or pod business whose global patent has run out.
10. The company has added 1 new USA customer for its Vietnam facility in Q1.
11. The company will be doing its best to reach 75% utilization in Freeze-Dried in FY21.
12. The company is also seeing an increase in spray-dried demand as it is a value segment for most customers.
13. Capacity utilization in India is expected to be between 65-75% in Fy21. The Vietnam utilization rate in Q1 was almost 100% on current capacity. The proposed capacity expansion here is expected to be done by Q3.
14. Around Rs 30 Cr of inventory had to be postponed and will be dispatched in August or September.
15. The management has clarified that there is no demand destruction in freeze-dried and there have only been postponements going on here.
16. Continental brand has grown 40% YoY in Q1 with sales of Rs 22 Cr.
17. Capex for FY21 is going to be Rs 120 Cr for the packing and agglomeration facility and $8 million in Vietnam for capacity expansion of 3500 tons.
18. Green coffee prices have risen 10-15% but this rise is not sustainable according to the management as overall demand for coffee has gone down due to closure of coffee shops.
19. The management has stated that none of the company's large customers has gotten into any problems due to a drop in demand. Instead, these customers have seen good demand from panic buying.
20. The revenues from Vietnam in Q1 were at Rs 107 Cr and EBITDA was at Rs 30 Cr.
21. The management has stated that the primary objective of the branded business is to drive revenues so it is not guaranteed that it may turn PAT positive in FY21.
22. The current sales levels in Switzerland subsidiary is expected to continue as the company has renewed contracts with customers of this subsidiary already.
23. The management has stated that it doesn't find the roasting and grinding segment as attractive as the instant coffee segment because the barriers to entry here are very low and the competition is very high. There are also other issues here including shelf-life.
24. The management has stated that wherever it has built plants it has done so with the option of doubling capacity. Thus it can easily add 15000 tons to Vietnam and 5000 tons to freeze-dried plant in India any time its wants with just the installation of required machinery.

25. The management has reaffirmed that the company will be both value and volume-driven. It shall be value-driven in its branded segments and volumes driven in its large supply areas.
26. Q1 volumes were a little higher as compared to last year despite the lockdown.
27. Revenue contribution geographically was at USA:20%, EU:20%, Russia & CIS: 25%, ROW: 35%.
28. Once the planned packing facility comes online, the company can increase small packs by up to 60% in the first year of operations.
29. The market size for the single-use capsule is at$ 35 billion today and it is expected to grow to $ 51 billion by 2027.
30. The export incentive book in Q1 was around Rs 7 Cr.
31. The company is seeing a huge demand for cold brew in the USA. It has already developed spray-dried and freeze-dried versions for it. The company has already received orders for it from some customers and in small packs. The management estimate that the company can sustain its first-mover advantage in this space for 2-3 years.
32. The company is looking to do 100 tons of sales for cold brew in the first year before rising to 500-600 tons in the next year. A major customer of the company has estimated that if it uses the company's product to sell in its 3000 stores, it will save 60% in product costs. Thus the company is also looking to target coffee chains with this product.
33. The capacity enhancement in the freeze-dried line will require a plant shutdown of 2 months next year. It was to be done this year but the engineers required couldn't come due to COVID-19.
34. The company has had no impact from the depreciation of Russian ruble as all export transactions take place in dollars.

Analyst's View:

CCL has already established itself in the wholesale coffee space for many years and their foray into branded sales through Continental Coffee label has been very encouraging. The company has had a modest quarter on the back of almost 100% utilization at the Vietnam facility. The company's branded business is growing well and the management has reassured that growing the top line is the primary concern for this division. The company is doing well to capitalize on its unique offerings and is working hard on expanding its influence. This is evident from the response seen from customers for its new cold brew product. The company also has a good opportunity in the coffee capsule business whose patent has expired recently. It remains to be seen how the coffee industry will come out from COVID-19 and whether the branded business will be able to maintain its growth momentum. Nonetheless, given the enormous market opportunity for the branded business in the domestic market, CCL products may turn out to be a dark horse in the global coffee industry in the years to come.

ITC Limited

Financial Results & Highlights

Brief Introduction:

ITC Limited is an Indian multinational conglomerate company headquartered in Kolkata, West Bengal. Established in 1910 as the 'Imperial Tobacco Company of India Limited', the company was renamed as the 'India Tobacco Company Limited' in 1970 and later to 'I.T.C. Limited' in 1974. It has a diversified presence in FMCG, Hotels, Packaging, Paperboards & Specialty Papers and Agri-Business. It has many famous brands under its stable like Wills, Classic, Gold Flake, Aashirvaad, Sunfeast, Bingo, Fiama, Vivel, Classmate and many others.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	10399	12123	-14.22%	12175	-14.59%
PBT	3128	4812	-35.00%	4512	-30.67%
PAT	2343	3174	-26.18%	3797	-38.29%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	11404	13305	-14.29%	13228	-13.79%
PBT	3436	5192	-33.82%	4743	-27.56%
PAT	2567	3437	-25.31%	3926	-34.62%

Detailed Results:

1. The company had a dismal quarter with a 14% consolidated revenue decline YoY and a fall of 25% YoY in consolidated profits.
2. FMCG-Others segment grew almost 12.2% YoY and segment EBITDA grew 42.4% YoY. The revenues excluding education and stationery products have grown 34% YoY.
3. The hotel business was similarly severely impacted in Q1 due to restrictions on travel and hotel operations. Q1 revenues fell 94% YoY. Aggressive reduction in controllable fixed costs partly mitigated the impact.
4. The Agribusiness revenues were up 4% YoY on the back of trading opportunities in oilseeds and rice.
5. The paper & packaging segment saw its performance impacted by lower offtake from end-user industries. Here export growth helped mitigate weak domestic demand. segment revenues declined by 32.8% YoY.
6. In Staples, Snacks and Meals category, 'Aashirvaad' atta posted strong growth across markets. The brand further fortified its leadership position in the branded packaged atta industry during the quarter with significant value and volume growth.
7. Sunfeast' Biscuits and Cakes recorded robust growth driven mainly by a surge in 'at home' consumption and the consumers' preference for trusted brands.

8. In the Dairy & Beverages category, 'Aashirvaad Svasti' range of fresh dairy products and ghee recorded strong growth.
9. The Chocolates and Confectionery categories were severely impacted reflecting the subdued demand for discretionary products.
10. The Personal Care Products Business recorded substantial growth in revenue driven by heightened awareness and demand for hygiene products such as hand sanitizers, hand wash, antiseptic liquids, and floor cleaners in the wake of COVID-19 pandemic.
11. The newly set-up perfume manufacturing plant at Manipura, Himachal Pradesh was re-purposed to manufacture hand sanitizers and service increased demand.
12. The portfolio was augmented with the launch of several products like 'Savlon Surface Disinfectant Spray', 'Savlon Hexa' hand sanitizing liquid, 'Savlon Germ Protection Wipes', Savlon Hand Sanitizer Sachet, 'Savlon Hexa advanced' Soap.
13. The Agarbatti industry was confronted with significant operational challenges, especially in the initial lockdown phase, mainly due to the higher focus of consumers and trade channels on essential products.
14. The significant surge in demand across categories in the portfolio was met through technology-enabled solutions leveraging predictive analytics tools, shortened demand planning cycles, focus on fewer SKUs, and higher-value packs, backed by flexible manufacturing plans and responsive supply chain operations to cater to variability in demand.
15. During the lockdown phase, nearly two-thirds of the throughput was delivered direct-to-customer/market from factories leading to a reduction in time-to-market.
16. The company was the first in the industry to launch an online ordering system for retailers. It also facilitated swift scaling up of cold-calling and Whatsapp based order taking from retailers and deployed mechanized and non-mechanized delivery modes.
17. The company also enhanced the presence of its product portfolio in alternative channels and entered into a collaboration with several companies such as Dominos, Swiggy, Zomato, Dunzo.
18. The company expanded its presence in the emerging channels of Modern Trade and e-Commerce during the quarter, growing at over 20% and 90% respectively.
19. In the Cigarettes segment, manufacturing operations were resumed in mid-May and thereafter rapidly scaled up. Currently, all factories are operational and production has been scaled up to pre-COVID levels.
20. The company has launched many new cigarette variants like Gold Flake Luxury filter in the Longs segment, and Navy Cut Deluxe Filter, Gold Flake Indie Mint and Capstan Fresh in the regular size filter segment. The Flake brand was launched in an innovative 5s pack in target markets.
21. In the Hotels business, the company is progressing towards accreditation by the National Accreditation Board for Hospitals & Healthcare Providers (NABH) for its operating procedures.
22. In Agribusiness, the company ramped up the direct milk sourcing network in West Bengal to cater to the increasing requirements on the back of the growing franchise of the Aashirvaad Svasti range of dairy products.
23. While demand for packaging in Pharma has remained stable, there has been a significant adverse impact in categories like publications, décor, wedding cards.
24. Swift resumption of business ahead of the competition, strong dealer network, and agility in servicing customer needs to be aided in further strengthening market share in the Value Added Paperboards segment. Strategic cost management and import substitution continue to aid margin expansion and strengthen competitive advantage in this space.

Analyst's View:

ITC has been one of the biggest conglomerates in the history of modern India. The company has done well to diversify into other FMCG segments and build many leading brands like Aashirvaad, Bingo, etc. The company has seen a modest performance in the current quarter with severe disruption in its FMCG-Cigarettes and the Hotels business due to the lockdown. The company is doing well in maintaining a leadership position in many of its brands. The company has shown resilient growth in its FMCG segment due to the increase in at-home consumption and the migration towards trusted brands in the food space. It has also done well to expand the manufacturing capability of Savlon Brand and to capitalize on the demand surge for Health & Hygiene products by introducing many new products under the Savlon brand. It remains to be seen whether there are any more disruptions in the future from COVID-19 and how long will it take for the Hotels business to get back to its feet. Nonetheless, given its history of building and maintaining durable brands, its leadership in various operating segments, and its mammoth cash-generating ability, ITC remains a critical stock to watch for any investor interested in the themes of FMCG and consumption.

Jyothy Labs

Financial Results & Highlights

Introduction

Jyothy Laboratories Ltd is a Mumbai-based fast-moving consumer goods company founded in 1983. It has 6 business divisions namely Fabric Care (Ujala -. market leader), Household Insecticide (Maxo), Utensil Cleaners (Exo), Fragrances, Personal Care (Margo) and Fabric Care Service. Ujala, Maxo, Exo, Jeeva and Maya are some of the brands it owns under these divisions. The company is the largest player in the fabric whitener space in India with a market share of 72%.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	433	416	4.09%	387	11.89%
PBT	59	42	40.48%	20*	195.00%
PAT	50	36	38.89%	26	92.31%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	437	427	2.34%	398	9.80%
PBT	61	46	32.61%	23**	165.22%
PAT	50	37	35.14%	27	85.19%

*Contains tax credit of Rs 6.4 Cr

**Contains tax credit of Rs 3.4 Cr

Detailed Results:

1. Standalone and Consolidated quarterly revenues were flat at 4% & 2% respectively. (volume up by 6.1%)
2. The gross margin for the quarter fell from 48.6% last year to 46.2%.
3. Operating EBITDA at 17.7% (Rs 76.5 Cr) Vs 15.5% (Rs 65.6 Cr) in the same period last year.
4. PAT at Rs 50 Cr as against Rs 37 Cr, down by up 35%.
5. The impact of COVID on sales was estimated to be Rs 150 Cr and Rs 50 Cr of pre-tax profit.
6. Despite volumes being muted in almost all categories, market share across all brands continue to remain intact.
7. Category wise break-up of Q1 Revenue Growth:
    1. Fabric Care: Down 23.8% (33% of sales)
    2. Dishwashing: Up 16.6% (36% of sales)
    3. Household Insecticides: Up 151.1% (15% of sales)
    4. Personal Care: Up 0.4% (14% of sales)
    5. Laundry Services: Down 75% (2% of sales)
8. A&P expenses to sales were reduced to 4.6% from 8% last year.

Investor Conference Call highlights:

1. The company has increased production of small unit packs of Rs 5 & Rs 10 due to increased demand for these units. It has also increased focus on the e-commerce platform, which allows for contactless delivery and fast growth in urban areas.
2. Ecommerce growth for the company has been 1.75 times YoY.
3. The company has added a new product of T-Shine Floor Cleaner which is a 100% organic compound based floor cleaner.
4. The company has launched its first corporate TVC covering all 6 power brands which have been launched in 8 regional languages and in Hindi.
5. The company has commenced operation of a new dish wash manufacturing plant at Pithampur in Dhar, which is expected to cater to increased demand for dish wash products in Central India.
6. Fabric Care sales declined as consumption of post-wash category, Ujala Fabric Whitener, and Crisp & Shine saw a reduction.
7. Dish wash category has seen a good uptake and momentum during the lockdown with increased emphasis on hygiene.
8. The company is seeing demand coming back to 60-70% of normal levels in its laundry business.
9. T-Shine toilet cleaner was extended to Bangalore from Kerala.
10. Sales of post-wash products are widely expected to come back to normalcy as the economy comes back to normal. Raw material prices are also expected to stay stable. The management has guided for EBITDA margins to be in the range of 15-16%.
11. The management has stated that the increased demand for small packs for Margo, Exo, etc has come from rural markets where demand is coming back faster than in urban areas.
12. The management has stated that it is still too early to provide any revenue guidance and it will stick to the EBITDA margin guidance provided earlier.
13. Margo has underperformed mainly as it is strong in traditional markets like Tamil Nadu and West Bengal both of which have been the worst hit by state lockdowns.
14. The company is looking to focus on liquid vaporizers in the HI category. The company's automatic machine has seen a good response and this category is expected to see good growth in the coming quarters.
15. Almost 40% of sales come from rural markets for the company. The company is looking to add sub-stockists in white spaces in rural markets to keep up with the demand growth.
16. The company has in fact reduced promotions on all products as demand is good here. It will introduce new offers based on competitor actions and situations in each category.
17. Another reason the company wants to focus on LVs in the HI segment is that it returns greater margins as compared to coils which are on the low end of the margin spectrum for the industry.
18. EBIT loss for HI was at Rs 2 Cr vs Rs 5 Cr a year ago. This is expected to reverse and return to profitability as the share of LV rises and the segment grows for the company.
19. The ratio of coils to LV has moved from 70:30 to 60:40. A further shift of 5-10% should bring the segment back to profits according to the management.
20. Despite the entry of many big players like ITC in the surface cleaner category, the management remains confident that the company will be able to carve its niche in this rising segment.
21. The company will only be spending for A&P for LVs in the HI segment.
22. The company is not discontinuing any SKUs but it will be focussing more on faster moving SKUs.
23. Unlike the competition in the HI segment, the company is not facing any supply chain issues from the season starting a few weeks earlier than estimated.

24. No major capex is planned for FY21. The debt for the company stands at Rs 100 Cr on the standalone level.
25. General trade has done well despite all constraints for the company while modern trade has declined slightly.
26. The company has not reduced any of its employee salaries as part of the cost-cutting measures.

Analyst's View:

Jyothy Labs is a consistent performer in the FMCG segment in India. They have successfully carved out a niche for themselves and have established themselves as market leaders in the fabric care and dishwashing segment. The performance of the company was very encouraging in this quarter despite industry disruption from the lockdown. The company has done well to be able to achieve good growth in its prime dish wash segment and in the revival of the HI segment. The company still faces the issue of fall in demand in the post-wash segment which is the company's biggest earner. It remains to be seen how long will it take for the post-wash segment to revive and how the company will fare in the increasingly competitive environment in the health hygiene space. Nonetheless, given the renewed focus on health and hygiene going forward and the company's good distribution reach and resilient product portfolio, Jyothy Labs may turn out to be a pivotal FMCG stock to watch out for.

KRBL

Financial Results & Highlights

Brief Company Introduction

KRBL is the world's leading basmati rice producer and has fully integrated operations in every aspect of basmati value chain, right from seed development, contact farming, procurement of paddy, storage, processing, packaging, branding and marketing. It is also the owner of the famous basmati rice brand INDIA GATE.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	773	1220	-36.64%	1072	-27.89%
PBT	167	199	-16.08%	201	-16.92%
PAT	126	136	-7.35%	150	-16.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	773	1220	-36.64%	1072	-27.89%
PBT	166	199	-16.58%	201	-17.41%
PAT	126	136	-7.35%	150	-16.00%

Detailed Results:

1. The company had a dismal quarter with a 37% decline in consolidated revenues and a 17% fall in PBT at a consolidated level.
2. PAT fell only 7% YoY mainly on account of the new reduced tax regime.
3. EBITDA margin for the company for Q1 was at 25% vs 20% last year.
4. The company saw export sales per ton rise dramatically to Rs 1,01,435 from Rs 85,502 last year.
5. The borrowings for the company went down drastically from Rs 1428 Cr in Q4FY19 to Rs 496 Cr in Q4FY20.
6. The revenue distribution in Q1 are as follows:
    1. India: (Q1 48.21% vs 47.56% last year)
    2. Export: (Q1 47.92% vs 50.6% last year)
    3. Energy: (Q1 3.77% vs 1.84% last year)
7. ROCE for the company improved 130 bps YoY to 6.15% in Q1.
8. The current ratio increased 154 bps YoY to 4.61 times.
9. Net debt reduced to Rs 268 Cr from Rs 690 Cr last year while interest coverage ratio rose 11.12% YoY to 20.87% in Q1.
10. Net debt to equity was reduced to 0.08 in Q1 from 0.24 last year.
11. The book value per share was at Rs 138.11. The operating profit margin improved 465 bps YoY to 22.9%.

Investor Conference Call Details:

1. The company has recorded best-ever margins of 25% due to higher price realization.
2. In the leadership consumer pack segment, KRBL has seen around 30% growth YoY and its best-ever volumes in the consumer pack segment.
3. The company saw a 70% YoY improvement in online sales. It also saw a 10-12% volume growth in the modern trade segment.
4. Most of the exports for high realization products go to the Middle East and U.S.A while lower realization products are exported to Iran, Iraq, Yemen, the African continent.
5. The management believes this rise in realizations to be sustainable as all of the above are permanent markets for the company.
6. The management is confident that Balsharaf will win the case as it has done in the previous tribunals despite the actions taken by the ED.
7. Online sales account for only 1.5% of domestic sales for the company.
8. The company has a direct account in Amazon, Grofers, Big Basket, Flipkart for selling its products online. The biggest shares of online sales come from Grofers & Big Basket (70% of e-commerce sales) while Amazon (12%) is at #3.
9. The management is largely aiming to deliver higher revenues than last year. It expects revenue growth of almost 5% YoY in FY21.
10. The company has lost around Rs 300-400 Cr of sales from the catering industry but this shortfall has been compensated by the rise in consumer pack sales where the company has gained market share.
11. In exports, the company is concentrating on Saudi Arabia & the USA at the moment.
12. The company definitely intends to go ahead with the demerger with the power business and get all PPAs transferred rather than renegotiated.
13. The company has started the promotion of giving away 200 gm of Quinoa with every 1 kg of brown rice as part of its health products promotion. It is also come up with rice bran oil with Amaranth, with Chia Seed, with Flax Seed for exports.
14. The company will be able to move ahead with its plans for other segments and geographies once things normalize by November or December.
15. The current loading rate at docks is at 1500 tons per day on days with no rain. This figure is expected to take at least 3-4 months to come back to normal levels of 5000 tons per day.
16. Out of the previously mentioned Rs 350 Cr of inventory in Kandla port, only Rs 50-60 Cr is left for shipping.
17. The overall increase in the consumer segment has been 30% while bulk 25 kg pack for the catering industry segment has fallen 40%.
18. The company is selling around 10 to 15 tonnes a month in Quinoa vs 7-8 tons pre-COVID. The company is also doing premium regional rice in 1 & 5 kgs packs in South India & West Bengal only.
19. The company currently has no immediate plans for a buyback.
20. The company is unable to execute any orders from Iran due to the US sanctions in place.
21. In the domestic market, the product mix has shifted towards lower varieties like mogra & mini-mogra.
22. The management has stated that the production of 1121 and Pusa Basmati would be lesser this year compared to last year, which will make the prices of the particular paddy varieties higher by 15% YoY.
23. Once the catering industry resumes, the company expects to make sales of Rs 500 Cr per quarter.

24. The pandemic has seen a fall in small players and a rise in branded rice. This situation is being mirrored in all segments in the FMCG industry.
25. The change in paddy price does not affect inventory value as it is priced at cost.
26. The company has seen changes in Saudi Arabia and the EU in import procedures.
27. The company is not looking to get into the heat and eat segment and is solely focused on expanding into the health segment.
28. The company has no plans to enter into other branded staples categories like dal.
29. The management is expecting sales in Q2 to be almost double that of Q1 mainly on the back of the carryover of the Rs 350 Cr of sales from the stock stuck in Kandla.

Analyst Views:

KRBL is one of the biggest sellers of basmati rice in the world. It has built up a long-standing legacy of more than 120 years and enhanced it using modern technology to make the process from grain to pack as efficiently as possible. The company has done well despite the setback in the catering industry from COVID-19. The only major loss to the company in Q1 was from the loss of domestic orders from the catering industry while the consumer packs segment has risen dramatically to fill this void. The company is doing well to reduce its dependence on working capital loans and to develop into regional rice and other avenues like health foods in the export segment. It remains to be seen how the company will evolve to the new packing and shipping norms due to COVID-19 and whether the company will face any obstacles in its way ahead to demerge its power business. Nonetheless, given the company's long-standing brand image, its resilient operations and export structure, and its focus on maintaining its strengths and developing new avenues, KRBL may turn out to be a prime wealth creator in the next few years.

Marico

Financial Results & Highlights

Brief Company Introduction

Marico Limited is one of India's leading consumer goods companies providing consumer products and services in the areas of health, beauty and wellness. With its headquarters in Mumbai, Maharashtra, India, Marico is present in over 25 countries across emerging markets of Asia and Africa. It owns brands in categories of hair care, skin care, edible oils, health foods, male grooming, and fabric care.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1535	1803	-14.86%	1293	18.72%
PBT	319	319	0.00%	284	12.32%
PAT	255	251	1.59%	227	12.33%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1944	2194	-11.39%	1528	27.23%
PBT	505*	423	19.39%	252	100.40%
PAT	388	315	23.17%	199	94.97%

* Contains Exceptional item of income of Rs 64 Cr.

Detailed Results:

1. Consolidated revenues declined 11% YoY in Q1.
2. EBITDA margins were up 300 bps YoY at 24.3% for Q1.
3. PAT for Q1 rose 23% YoY.
4. The exceptional items include the profits from the remeasurement of the existing stake of the company in ZED Lifestyle Products where the company acquired the remaining 55% stake in Q1. There was also the impairment of goodwill of Rs 10 Cr from South African Hair styling brand ISO Plus and expenses in relation to the amount paid towards voluntary retirement scheme offered to the employees on the close of operations at the Kanjikode factory of the company.
5. In Q1, sales volumes were down 14% YoY for domestic operations due to supply-chain disruptions following the extension of the national lockdown.
6. The domestic business clocked sales at 104% of the annual average monthly run rate of FY20 since opening up.
7. The CSD business during the quarter was nearly reduced to its half, which had a meaningful impact on the overall volume growth of the India business.
8. International business declined by 4% YoY in Q1.
9. The company had sales of largely Saffola Oils and foods portfolio in the last week of March.
10. The company saw stress in personal care categories before the onset of COVID-19. It also saw demand uptick in food and allied categories during the same period.

11. In international business, MENA (the Middle East & North Africa) & South Africa saw sharp drops (50% & 25% respectively in cc terms) while Bangladesh and Vietnam remained positive (6% & 1% respectively in cc terms) for the company in FY20.
12. In Parachute Rigids, volumes fell 11% YoY but sales were at 111% of the annual average monthly run rate of FY20 in Q1FY21.
13. In value-added oils, volumes declined 30% YoY but sales were at 94% of the annual average monthly run rate of FY20 in Q1FY21.
14. Saffola Edible Oils saw good volume growth of 16% YoY.
15. The oats portfolio saw a growth of 41% YoY in value terms. The company also launched Sffola Honey in Q1.
16. Premium Hair nourishment & male grooming portfolio fell sharply mainly due to falling demand during the lockdown period.
17. Ad & promo spending for Q1 was at 7.1% of sales.
18. The Hygiene portfolio started well with encouraging response to Mediker Hand Sanitizers and Veggie Clean. The company also expanded the range with the launch of indoor and outdoor surface disinfectants, under the brands' House Protect and Travel Protect.
19. The volume market share of various divisions is at:
    1. Coconut Oils: 62%
    2. Saffola –Super Premium ROCP: 77%
    3. Saffola Oats: 34%
    4. Value-Added Hair Oils: 36%
    5. Post wash Leave-on Serums: 65%
    6. Hair Gels/Waxes/Creams: 59%
20. The Parachute brand reinforced its hygienic processing and safety credentials in the minds of consumers with the launch of the "Untouched by hand" campaign.
21. The company launched its digital-first Hygiene brand 'KeepSafe in mid-June on all leading E-Commerce channels.
22. In raw materials, the price of copra was up 7% YoY. Rice bran oil prices were up 17% YoY, liquid paraffin prices were down 9% YoY & HDPE prices were down 14% YoY.
23. In Q1, urban & rural sales fell 17% & 10% YoY respectively in volumes terms. Modern trade fell 17% YoY while e-commerce grew 37% YoY. CSD declined 48% YoY due to scaled-down operations during the quarter.
24. The international revenue breakup is:
    1. Bangladesh: 49% (up 10% YoY)
    2. SE Asia: 26% (down 17% YoY)
    3. MENA: 12% (down 27% YoY)
    4. South Africa: 7% (down 25% YoY)
    5. Others: 6% (down 16% YoY)
25. The capex for FY21 is expected to be around Rs 125-150 Cr.
26. The current MAT credit stands at Rs 141 Cr as of 30th June 2020.
27. Overall other expenses fell 9% YoY with fixed costs rising 11% YoY while variable costs falling 16% YoY.
28. The company improved its ROCE in Q1 by 100 bps YoY to 52%. The debt to equity was maintained at 0.11 times.

29. The net surplus for the company was at Rs 935 Cr after a gross debt of Rs 333 Cr as of 30th June 2020.
30. The company is targeting 8-10% volume growth and 13-15% revenue growth at a consolidated level.
31. The company is looking to maintaining operating margin at 19%+ over the medium term. It is expecting operating margins to be around 20% for the rest of the year.

Investor Conference Call Details:

1. Given reverse migration of labour, government stimulus, good rabi season and no adverse impact on agricultural output during these times, rural in Q1 grew at 120% of FY20 monthly run rate.
2. The company is looking at a three-pronged strategy of gaining market share in the premium segment, driving value in the mid-segment, and aggressive pricing in the bottom-of-pyramid segment.
3. Marico Bangladesh has launched Mediker SafeLife Hand Sanitizer and Hand Wash and introduced Mediker SafeLife Veggie Wash in Q1. The company also launched Parachute Natural Shampoo in 3 variants here.
4. The company is looking to build a hygiene portfolio with a significant acceleration in e-commerce and digital spends. It expects the hygiene business to be around Rs 80-100 Cr in FY21.
5. Marico is also expecting the food business to clock Rs 300-350 Cr in FY21 and target Rs 500 Cr in FY22.
6. The management is targeting to maintain Parachute as a premium brand in its segment and expects any market share gains from the price cut to be permanent.
7. The management also expects at least 10% embedded growth in Saffola due to higher usage from more in-home cooking.
8. The company has managed to work now with 70-80% of its SKUs and considering this the 3% growth in general trade seems very significant.
9. The management has stated that to reach its target of Rs 500 Cr foods business in the near future, it is looking to expand into food segments with one large incumbent with high market share and the rest being fragmented to play on the brand image of Saffola and become number 2 in the category swiftly. This is the reasoning behind the foray into honey.
10. The management has stated that the reason behind the fall in VAHO is the lack of participation in the bottom-of-pyramid where the company is dominant.
11. The company is looking to launch a few new products in the foods category in the next quarter. Its base strategy here is to chase tailwind large categories using the strong Saffola brand instead of trying to create niche categories.
12. In coconut oil segment, the company is looking to capitalize on its competitive advantage of having the agility to distribute and supply chain assurance along with the strong brand appeal. IN the VAHO segment, there is significant conversion going on from loose mustard to value-added hair oil. The company is looking to accelerate this conversion.

13. There is still room for growth in Parachute as rural market share is still at 40% for the brand as compared to the urban market share of 60%.
14. The performance in Bangladesh has been robust as the lockdown didn't stop factories from working. Thus the disruption to the business was low.
15. The company is not looking to enter into any of the consumer staples areas as they are all low margin. It is only looking into segments that are margin-accretive to the base edible oil.
16. The company is increasing the footprint in direct distribution in terms of converting a lot of stockist towns and sub-stockist towns to direct. It is also looking at underpenetrated states for more focus.
17. The company has launched shampoo in Bangladesh but does not plan to do so in India as the category is highly penetrated with pre-incumbents having 70% to 80% market share.
18. Ecommerce contributed to 7% of sales in Q1.
19. SKU rationalization is expected to continue. The company is now looking to focus on the small pack given the consumer outlay and the consumer disposable income is challenged.
20. The management is not looking at any price cuts or promotional discounts in the edible oils segment as Saffola has a significant brand image here and it has already taken significant cuts in end consumer price by rationalizing all promotion and trade spend.
21. The Veggie Clean and sanitizer contributed to 1.5% of total sales in Q1.
22. The company was focusing only on large packs in the first 2 months because of production constraints in Parachute. It is now seeing significant traction in the small pack.
23. For cost transformation, the company is looking into all aspects of operating models in its international units. In India however, it is only looking at discretionary items and keeping the operating model stable.
24. In personal care and male grooming segments, the company is looking to drive higher sales through digital e-commerce as customers in this channel continue to have disposable income.
25. On average, the company has serviced 70% of its outlets in Q1. The management expects there to be a significant rise in direct distribution especially in rural going forward.
26. The company's goal for implementing technology for order taking at the distributor level is to maintain growth and not lose orders. An increase in efficiency is not expected to happen in the short term and will only happen over the long term.
27. These measures are expected to reduce the number of salespeople at the distributor level in the long term.

Analyst's View:

Marico is one of India's leading FMCG companies with many market-leading brands like Saffola and Parachute. The company has done well to maintain value growth on a MoM basis in almost all categories despite fall in overall volumes everywhere. It is showing encouraging performance in the food category. The company has seen a decline in overall volumes but has maintained its leadership position in all categories highlighting good brand resilience. In light of the COVID-19 disruption, the company has done well to develop direct distribution channels and rationalize its SKUs The company's focus on expanding into on high margin food categories and the in-demand hygiene looks shows good room for growth in these segments. It remains to be seen how long the COVID-19 situation lasts and what second-order effects it has on the company and general consumer behaviour. Nonetheless, given the company's solid standing in its core categories, its expansion plans for high margin food categories, and its robust distribution network, Marico looks like a pivotal FMCG stock to watch out for.

Tata Consumer Products

Financial Results & Highlights

Brief Company Introduction

Tata Consumer Products Limited (formerly Tata Global Beverages) is an Indian multinational non-alcoholic beverages company headquartered in Kolkata, West Bengal, India and a subsidiary of the Tata Group. It is the world's second-largest manufacturer and distributor of tea and a major producer of coffee.

Tata Consumer Products markets tea under the major brands Tata Tea, Tetley and Good Earth Teas. Tata Tea is the biggest-selling tea brand in India, Tetley is the biggest-selling tea brand in Canada and the second-biggest-selling in United Kingdom and United States.

In 2012, the company ventured into the Indian cafe market in a 50/50 joint venture with Starbucks Coffee Company. The coffee shops branded as "Starbucks Coffee - A Tata Alliance" source coffee beans from Tata Coffee, a subsidiary company of Tata Consumer Products.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1651	1505	9.70%	1352	22.12%
PBT	314	235	33.62%	96	227.08%
PAT	232	155	49.68%	71	226.76%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	2747	2425	13.28%	2427	13.19%
PBT	499*	300	66.33%	-17**	3035.29%
PAT	389	198	96.46%	-50	878.00%

*Includes a onetime gain of Rs 84 Cr from conversion of NourishCo JV into 100% subsidiary and integration costs of Rs 21 Cr for the foods business.

**Contains exceptional item of Rs 264 Cr which mainly consists of impairment of goodwill related to business in Australia and tea business in USA. It also contains some business integration and reorganization costs after the merger with the consumer products division of Tata Chemicals.

Detailed Results:

1. The consolidated performance was good 13% YoY growth in revenue and 42% YoY PBT (before exceptional items) growth for Q1.
2. The company saw growth in consolidated EBITDA of 37% YoY for Q1. EBITDA margins expanded 310 bps YoY to 17.9%.
3. The India Beverages business showed a growth of 11% YoY in Q1 while the India Foods business grew 19% YoY in value terms and 8% YoY in volume terms.

4. International beverages saw 23% YoY value growth for Q1 with volume growth of 27% YoY in Coffee and 4% YoY in Tea.
5. Completed acquisition of the entire stake of PepsiCo in NourishCo in May 2020.
6. There was a sharp increase in North India Tea prices during Q1FY21 owing to production impacted by lockdown and excessive rains in Assam.
7. Tata Tea Gold showed >10% growth.
8. The India Foods division saw Salt revenues grew 11% and record volumes sold in May & June for Tata Salt. Pulse & spices grew >50% YoY.
9. The Tata Coffee division saw volume and value growth of 18% YoY and 12% YoY respectively with highest-ever quarterly sales in volumes. This Vietnam plant is now running at greater than 87% utilization and has turned EBIT positive.
10. In the Starbucks JV, the company saw an 87% YoY revenue decline in Q1. Around 60% of stores are operational and 82% of orders are for delivery.
11. The UK tea business saw revenue growth of 12% YoY with a volume growth of 7% YoY. It maintained a market share of 20.5% in the everyday black tea segment.
12. The USA coffee business saw a 27% YoY growth in volumes and 26% YoY revenue growth. Tea business saw revenue growth of 25% YoY & volume growth of 26% YoY.
13. In Canada, the company saw revenue growth of 32% YoY in Q1 and it maintained a market share at 29.2%. Volume growth in the quarter was at 28% YoY.

Investor Conference Call Highlights

1. Tea prices continue to rise and it may affect margins in the short term.
2. The company is in the process of implementing end-to-end digitization across both the sales & distribution side and the supply chain side, providing end-to-end visibility.
3. The management states that the company is broadly on track to realize the estimated synergies announced at the time of the merger.
4. The company is looking to double its direct reach in the next 12 months and double the total reach in the next 3 years.
5. The company has a concentrated supply agreement for 5 years and R&D support for 3 years from PepsiCo for NourishCo.
6. The management expects some problems to come up with coffee as TCPL's primary customers facing issues on on-premise and out-of-home consumption because most of the coffee is consumed out-of-home.
7. Starbucks launched India's first Starbucks Drive Through at Zirakpur near Chandigarh.
8. The company launched the Good Earth brand (which operates in the USA) in the UK in Q1.
9. The main reasons for the revenue growth in foods business being greater than volume growth are:
    1. Increase in selling prices.
    2. Improvement in product mix.

   3. Reduced promotions.
10. The company was able to gain market share in India Tea business despite passing on the increase in RM costs.
11. The company's immediate focus is to complete the merger integration by December and then it will look to explore new businesses or categories.
12. The management has reassured that it will not be blindly chasing volume growth for tea. The management will also ensure that as inventory costs go up, this translates to an increase in pricing.
13. The company will focus on setting up its distribution structure in urban areas before going to rural areas.
14. The management states that Tata Sampann has good potential going forward and the company is looking to increase distribution reach for this division.
15. The company is looking to flatten the distribution structure by implementing the salesforce applications with the front end connected with DMS and the distributors.
16. Tea margins are expected to decline slightly going forward.
17. The management stresses that digitization is the way forward for improving efficiencies and cost control for the company as it will help optimize procurement, inventory management and sales for the company while providing detailed analysis of all activities like procurement auctions, etc.
18. The net cash position for the company is at Rs 2000 Cr.
19. Most of the debt taken by the company is related to long-term credit for the Vietnam project and some debt for Eight O'Clock which is a very low international rates.
20. The management has highlighted the company's future ambitions as:
    1. Expanding Sampann into new channels and wider reach.
    2. Going into new categories like snacks, etc.
    3. Maintaining and possibly improving return ratios while capturing market share.
    4. Transforming into a full-fledged FMCG company.
21. The management has indicated that the reason for the rise in market share in tea in India was mainly due to better procurement and distribution reach for the company as compared to other players, especially smaller players.

Analyst's View:

Tata Consumer Products has a very good product portfolio in diverse F&B segments and strong brands like Tata Tea under its umbrella. The newly merged entity of Tata Consumer Products aims to leverage the synergies and brand building experiences of the company and new CEO to forge a new FMCG major in India. The company has seen good growth in both value and volume terms across all segments except NourishCo & Starbucks. The company has a good opportunity for growth in the staples segment with Tata Sampann which saw good traction in the quarter. It was also able to pass on the increase in tea prices directly to consumers without losing any market share thus highlighting the brand's strength. It remains to be seen how the company's wholesale businesses which have the worst hit from COVID-19 fare going forward and how the company will fare against other branded players like ITC in the fast-rising branded staples category. Nonetheless, given the company's leadership position in its top brand segments, its enhanced distribution reach after the merger, and the incoming synergies and benefits from integration, Tata Consumer Products remains a good FMCG stock to watch out for.

Varun Beverages

Brief Company Introduction

VBL are the second largest franchisee in the world (outside US) of carbonated soft drinks ("CSDs") and non-carbonated beverages ("NCBs") sold under trademarks owned by PepsiCo and a key player in the beverage industry. They produce and distribute a wide range of CSDs, as well as a large selection of NCBs, including packaged drinking water. PepsiCo CSD brands sold include Pepsi, Diet Pepsi, Seven-Up, Mirinda Orange, Mirinda Lemon, Mountain Dew, Seven-Up Nimbooz Masala Soda, Evervess Soda, Sting and Gatorade. PepsiCo NCB brands sold by the company include Tropicana (100%, Essentials & Delight), Tropicana Slice, Tropicana Frutz, Seven-Up Nimbooz and Quaker Oat Milk as well as packaged drinking water under the brand Aquafina.

Standalone Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	1421	2469	-42.45%	1344	5.73%	2766	3469	-20.27%
PBT	159	537	-70.39%	5*	3080.00%	165*	614	-73.13%
PAT	122	382	-68.06%	77**	58.44%	199	438	-54.57%
Consolidated Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	1669	2855	-41.54%	1725	-3.25%	3393	4237	-19.92%
PBT	182	582	-68.73%	8*	2175.00%	190*	645	-70.54%
PAT	143	405	-64.69%	60***	138.33%	203	445	-54.38%

*contains an exceptional item of Rs 66.5 Cr for impairment of certain plant & equipment
**Contains negative tax expenses of Rs 71.8 Cr
*** Contains negative tax expenses of Rs 52.2 Cr

Detailed Results:

1. The current quarter was dismal for the company with a 42% YoY fall in consolidated revenues.
2. Consolidated Profits were down with over 65% YoY decline.
3. The company saw an EBITDA decline of 52% YoY and volume decline of 66% YoY in the quarter.
4. Organic volume growth in India declined by 50% due to disruption caused by COVID-19. The same declined by 33% in international territories and 48% on a consolidated basis.
5. EBITDA margins declined 501 bps YoY and increased 685 bps QoQ. The EBITDA margin in the current quarter was 23%.
6. Sales volumes started picking up gradually from about 25% in April to about 75% in June.
7. CSD accounted for 85%, Juices 7%, and packaged water was 8% of total sales volumes.
8. Finance costs for the company declined 12.5% YoY due to the repayment of some debt from the funds from the QIP.
9. Net debt stood at Rs 2939 Cr as of 30th June 2020 vs Rs 3246 Cr 6 months ago.
10. Net capex in the last 6 months was at Rs 243 Cr. Capacity utilization in the peak month was at around 60%.
11. Working capital days increased to 20 days vs 14 days last year due to lower sales.

12. The company announced an interim dividend of Rs 2.5 per share.

Investor Conference Call Highlights:

1. The capex mentioned above was primarily towards commitments made prior to March for brownfield expansion at certain plants for new tetra lines for Slice and backward integration.
2. The company has not availed moratorium for its debt repayments and has been timely servicing all its debt obligations.
3. The management has stated that the company's go-to-market sales have dropped along with sales in public spaces like theatres. But in-home consumption has increased drastically.
4. The management has admitted that Rs 10 is a very competitive price point for juices and the company already has a presence at this price point.
5. The company is not looking to change its product mix and add new products. It will instead be focussing on promoting its juices particularly Tropicana brand.
6. The management has stated that at least 50% of the current cost savings are sustainable for the long term for the company.
7. The company does not see any need to approach PepsiCo for any support currently.
8. The main reason for realizations going up is the decline in sales of water in public spaces.
9. The company has close to 25% market share but increasing penetration or market share for the current year is still uncertain due to COVID-19.
10. The company has indeed gained some market share from local competitors which didn't open up in time due to COVID-19 at the start of the peak season after Holi.
11. The management has stated that the company will aim to keep capex at lower than 50% of depreciation from next year.
12. The company has not faced any repayment issues in Zimbabwe in the quarter.
13. More in-home consumption has led to an increase in sales of medium and large bottles vs single-serve bottles for the company.
14. The company is working on digital and e-commerce channels as per its media strategy.
15. The management has stated that as lockdowns are being lifted, the company is slowly coming back to its normal sales levels.
16. The management expects performance from international regions to be better than last year as the peak season for the African regions starts from November.
17. Realizations have grown 8-9% QoQ in the current quarter.
18. The management expects the current volume share to persist as long as public spaces like hotels, theatres, etc come back to normalcy.

19. The management expects to run out of capacity for Tropicana by the end of 2021 as the same equipment is used for ambient temperature value-added products under the brand of Cream Bell.
20. On-the-go consumption including water was close to 70% pre-covid for the company. Now it is less than 50%.
21. The company is not looking to do any capex on juices in the next year so far.
22. The company does not need any capacity expansions for at least 20-25% rise in volumes.
23. Going forward, discounts or promotions will be dependent only on market demand and competition.
24. Around 84.6% of volumes sold in the quarter were domestic and the rest was international.
25. Urban areas have been negative or neutral for the company while rural areas have been the fastest-growing segment. The revenue share of rural has gone up by 5-10%.
26. The company has held back on the launch of the dairy product due to the COVID-19 outbreak and is looking to launch it again next year.
27. Currently, less than 50% of outlets are open for the company. At the domestic level, UP is the largest selling state for the company.
28. The company is now looking to focus its marketing efforts towards home consumption and larger pack size.
29. The company has shut down a small unprofitable plant in Bargarh Odisha.

Analyst Views:

Varun Beverages have been one of the biggest bottlers in India and has been quite proactive in international expansion for some time now. The company has seen a major decline in the quarter with a massive fall in on-the-go consumption. The lockdown has hit the company's sales hard but demand seems to have stayed resilient as in-home consumption has risen along with juice consumption. It remains to be seen whether there is a further economic disruption in the future from COVID-19 which may have severe second-order effects on the company's performance. Nonetheless, given the resilient sales network, the rising demand for the company's products, and the arrival of the peak season for the beverages industry, Varun Beverages is a good consumption stock to watch out for at present. However, as it is a capital intensive business, the current pandemic can put a strain on the Balance Sheet which is already laden with debt. The valuation at current levels does not give any margin of safety at the moment.

HEALTHCARE & PHARMA

Cadila Healthcare

Financial Results & Highlights

Brief Introduction:

Cadila Healthcare Ltd (Zydus Cadila) is an Indian pharmaceutical company headquartered at Ahmedabad in Gujarat state of western India. The company is one of the leading pharmaceutical companies in India, with INR 119.05 Billion revenue (2018). It is a manufacturer of generic drugs.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1816	1283	41.54%	2212	-17.90%
PBT	478	25	1812.00%	693*	-31.02%
PAT	398	16	2387.50%	607	-34.43%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3662	3519	4.06%	3796	-3.53%
PBT	593	394	50.51%	522*	13.60%
PAT	470	315	49.21%	414	13.53%

*Includes an exceptional item of Rs 52 Cr.

Detailed Results:

1. Consolidated revenues were up with only 4.06% YoY growth. Profit has risen 49% YoY in Q1.
2. The EBITDA for the quarter was at Rs 815 Cr with EBITDA margins of 22.4%, an improvement of 360 bps YoY.
3. India revenues were at Rs 1486 Cr in Q1.
4. US revenues were up 19% YoY to Rs 1623 Cr. The company received 12 ANDA approvals and 4 are tentative.
5. The Rest of the World business grew 8% YoY to Rs 238 Cr in Q1.
6. The company has gotten USFDA approval to initiate clinical trials of Desidustat, its Investigational New Drug targeted at treating anaemia in cancer patients, receiving chemotherapy.
7. The company received approvals from COFEPRIS of Mexico for clinical trials of Pegylated Interferon Alpha 2b in COVID 19 patients. At present, clinical trials in India and Mexico are underway with Pegylated Interferon alpha-2b.
8. The company announced the commencement of the Adaptive Phase I/II clinical trials of ZYCoV-D, the preventive vaccine for COVID 19 in India.

Investor Conference Call Highlights

1. The US generics business grew 25% YoY on the back of volume expansion and new product introductions.
2. The company gained market share in gynaecology, pain management, and antidiabetic portfolios during Q1.
3. In India human health business, sales were at Rs 532 Cr which was 12% down YoY, and profits were at Rs 89 Cr which was up 11% YoY.
4. Animal health business in India saw modest revenue growth of 4% YoY to Rs 125 Cr.
5. The company launched 3 new products during the quarter.
6. API business saw sales of Rs 131 Cr which was up 89% YoY.
7. In the complex generics space, the company has 14 in-licensed brands with a brand value above Rs 1500 Cr. The company has 10 more licensing deals that are under discussion with near-term commercialization opportunities.
8. The management is guiding for U.S. generics price erosion of <5%.
9. In the next 2-3 years, the company is looking to have at least 20+ injectable products that are expected to have a good value proposition in terms of limited competition and complexity.
10. R&D spend is guided to stay within 7-8% of sales and it will be divided into shares with the largest being for generic portfolio (60%) followed by NCEs, biologics, and vaccines. There might be an increase in the allocation towards NCEs resulting in a fall of generic R&D share to 50%.
11. Gross margins have improved in Q1 due to improved product mix and YoY growth in US business.
12. The net debt was reduced by Rs 1500 Cr in Q1. The management believes that another Rs 1000 Cr of net debt reduction will take place in FY21.
13. The company is one of the few ones to offer an entire portfolio of products targeting COVID-19. In diagnostics, the company currently does 2.5 to 3 lakh tests commercially every month. On the vaccine front, it is committed to being able to produce 100 million or 10 crore doses annually. The company has also launched Remdac which is the cheapest available Remdesivir brand in India priced at Rs 2800 per 100ml.
14. The company is implementing digital technologies in its operations and front end to reduce costs and improve productivity. It is also adopting zero-based budgeting to identify potential areas for cost improvements.
15. The company is starting Phase II trials for its COVID-19 vaccine where it is looking to enroll 1000 healthy volunteers. It expects to complete this phase by October.
16. The reduction in net debt was afforded by better receivables management by the company and postponement of some Capex programs. The company has also set up a cash management office to manage our daily cash flows and everything as part of the response to the COVID.
17. The company did see demand persisting in hydroxychloquine but it is still small at less than Rs 100 Cr in Q1.

18. The company is committed to go to the FDA for its next clinical trial protocol for NASH and to take PBC forward after successful completion of the Phase II enrolment.
19. The management has stated that the trial expenses will all be reflected in R&D.
20. The main seasonality in the USA business is expected to be from oseltamivir capsules and suspension which is highly seasonal in nature. The company has guided for 5-10% growth in US generics in FY21.
21. The company is waiting on clinical approvals from Russia, Columbia, and Mexico which are expected to come in the next 6 months and will result in meaningful sales in FY22.
22. For the biologics, the company is aiming for markets in LATAM, North Africa, the Middle East, and Southeast Asia. It will focus on launching biologic in developed countries in the next phase.
23. In the first phase of biologics, the company is focussing on products like PEG-G-CSF, trastuzumab, bevacizumab, adalimumab, rituximab, follicle-stimulating hormone, and parathyroid hormone.
24. The management believes that the injectables portfolio to be at $150-200 million by FY24.
25. The main reason for the company's confidence in being able to provide the cheapest Remdesivir variant in India is the fact that it is completely backward integrated with even the APIs being made in-house.
26. The management expects the momentum in API sales to continue going forward.
27. The Phase III trial for the COVID-19 vaccine is expected to have around 5000-10000 patients in the study.
28. The company is working with both the injectable and device delivery mechanism for this vaccine.
29. The management believes that the company has sufficient capacity for the next 4-5 years.

Analyst's View:

Zydus Cadila is one of the leading pharmaceutical and wellness product makers in the country. The company has done well to maintain good growth in the US generic business and stay flat in the India business, both of which are the biggest revenue generators for the company. The company is expected to benefit greatly from its targeted portfolio of products and services for COVID-19 especially from RemDac which is currently the cheapest Remdesivir drug available in India. It also has massive potential in the injectables business where the company is looking to add a number of its products in the near future. It remains to be seen what the future holds for the pharma industry with the race to COVID-19 vaccine intensifying. The company also has FDA audits pending which can prove to be a downer if any negative observations are made during those audits. Nonetheless, given the strong positioning of the company in various pharma and consumer product categories and its ever-increasing specialty product portfolio, Zydus Cadila is an important stock to watch out for every pharma investor.

Cupid Limited

Financial Results & Highlights

Introduction

Cupid is engaged in business of dealing, marketing and manufacture of rubber contraceptives and allied prophylactic products. It is the first company in the world to obtain Pre-qualification status from WHO/UNFPA for supply of both Male & Female condoms. It currently exports to more than 65 countries worldwide.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	28	35	-20.00%	43	-34.88%
PBT	8	11	-27.27%	14	-42.86%
PAT	6	8	-25.00%	10	-40.00%

Detailed Results:

1. The current quarter was dismal with a revenue decline of 20% YoY and a profit decline of 25% YoY.
2. The company's total order book as of 1st July 2020 consists of Rs 117 Cr of confirmed orders.
3. The EBITDA margin for Q1 fell to 31.1% vs 35.2% a year ago.
4. Geographical sales breakup was 94% in exports and 6% domestic in Q1FY21.
5. Product-wise revenue breakup in Q1 is as follows:
    1. Male Condoms: 56%
    2. Female Condoms: 43%
    3. WBJ & Hand Sanitizers: 1%
6. The company is looking to enter into the manufacturing of Medical Devices for use in the treatment of COVID, Dengue, HIV, Malaria, and other diseases.

Investor Conference Call Highlights

1. The company was unable to open up till the 1st week of May and even then it had to face labour shortage which further slowed down operations in Q1.
2. The company has been awarded a contract of Rs 45 Cr from Brazil to supply female condoms. This order is expected to be received in mid-September.
3. The company has gotten new orders worth Rs 6 Cr since July 1 and now the order book has confirmed orders of Rs 123 Cr. Around 31% of this order is for female condoms and 69% is for male condoms. This does not include the brazil order.

4. The company is also getting inquiries from the Philippines, Russia, Bolivia, and many countries in the Sub-Sahara African continent. Thus the management believes that it can easily get more orders than the confirmed amount above (Rs 123 Cr + Rs 45 Cr).
5. The management has stated that the company has enough capacity to handle Rs 55-57 Cr of quarterly sales.
6. The temporary working capital loan in Brazil was reduced to Rs 17 Cr as on 30th June from Rs 31 Cr on 31st The company's investment plus the bank deposit have grown from Rs 25 Cr to Rs 44 Cr in the same period and receivables have been reduced from Rs 41 Cr on March 31st down to Rs 24 Cr on 30th June.
7. The management is looking to bring this WC loan down to 0 by the end of the year.
8. The company has registered four new brands of Cupid Male Condoms in the US during this quarter and has registered a trademark for Female Condoms under the Angel brand. Cupid expects to start marketing female condoms in the USA by the end of next year.
9. The company has no plans to expand capacity and it will outsource any extra orders above Rs 175 Cr.
10. The management has refused to comment on the topic of investments and subsequent write-offs into real estate companies done in recent years by the company.
11. The company is still on the hunt for a new CEO and is looking for a candidate which can help them win new orders and in expanding international marketing.
12. The management maintains that the key to the USA market will be female condoms as the male condom space is very competitive and it will be able to get much better margins on female condoms.
13. The management is reluctant to enter the B2C space in India as there isn't much incentive to develop this space with low margins and high expenses especially promotions and marketing. It is much better to sell its products at better margins in the B2B space overseas.
14. The management has stated that the company will at least match last year's total dividends of Rs 4.5 per share in FY21.
15. The company is planning to set up a facility within its existing factory premises for medical devices and start initial production from late November. This segment is expected to generate revenues of Rs 20-30 Cr by March 2021.
16. The management has clarified that the majority of RM for the medical devices is available in India and only a few others will be sourced through imports from South Korea.
17. The company only uses natural latex in its condoms. All of it is sourced from Kerala. Latex prices have gone down in the year so far but the management does not know how long this trend will continue.
18. The average revenue per female condom in the USA is expected to be around $1 which is almost double that form existing female condom sales for the company.
19. The company is targeting sales of $5 million in the first 2 years of selling female condoms in the USA.
20. Going forward, the management expects Female Condom orders from Brazil and an increasing amount of Female Condom order from the UN Population Fund for the prevention of HIV and prevention of unintended pregnancies, mostly in the Sub-Saharan countries.
21. The tender order from Brazil is for 1 year while the order from UNFPA is for 3 years.
22. The company has an initial budget of Rs 12 Cr to set up the medical devices business. It is expected to be generated through internal accruals.

23. The main reason the company is entering into the medical devices field is the import substitution opportunity in this field right now.
24. Margins in this business are expected to be between 20% and 30%.
25. The company has been selling female condoms in India through e-commerce sites like Amazon and Flipkart as well as wholesale dealers in major cities like Mumbai, Bangalore, Delhi, and Pune.
26. The management does not see any execution risks in fulfilling its existing order book at the current moment.
27. The company is looking at both B2C and govt tender channels in both India and abroad for the sales of its medical devices in the future.

Analyst's View:

Cupid is a leading condom maker in India. It is also one of the only 3 WHO-approved female condom manufacturers in the world. It exports its products to over 80 countries around the world now. The company has had a dismal quarter due to one month of production loss and labour issues slowing down the company's operations revival. The company seems to be well placed with a strong order book ensuring revenues of more than Rs 123 Cr. The company is also looking to expand into the medical devices field and to register its female condom with the FDA to start sales by the end of next year. It remains to be seen how the COVID-19 situation pans out and what challenges the company faces in its foray into the medical devices field. Nonetheless, given the company's long history of expertise in this field and the consistent sales growth and expanding order book, Cupid is a good small-cap stock to watch for.

Divi's Laboratories

Financial Results & Highlights

Brief Introduction:

Divi's Laboratories Limited manufactures and sells generic active pharmaceutical ingredients (APIs) and intermediates for in the United States, Asia, Europe, and internationally. The company also undertakes custom synthesis of APIs and intermediates; and supplies a range of carotenoids, as well as markets vitamins to nutritional, pharma, food/beverage, and feed industries. In addition, it exports its products. The company was formerly known as Divi's Research Center and changed its name to Divi's Laboratories Limited in 1994. Divi's Laboratories Limited was founded in 1990 and is headquartered in Hyderabad, India.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1728	1172	47.44%	1453	18.93%
PBT	661	366	80.60%	475	39.16%
PAT	492	267	84.27%	392	25.51%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1748	1193	46.52%	1466	19.24%
PBT	661	373	77.21%	471	40.34%
PAT	492	272	80.88%	388	26.80%

Detailed Results:

1. Consolidated revenues were up an impressive 47% YoY while profit saw a rise of 81% YoY in Q1.
2. The company received forex gains of Rs 5 Cr in Q1.
3. Most of the capex programs for FY21 have been delayed due to the non-availability of workmen of some contractors implementing the projects. The company expects these projects to be completed by H2FY21.

Investor Conference Call Highlights

1. Divi's developed a process from indigenous raw material, for hydroxychloroquine in response to COVID-19.

2. It also developed a process for 4 intermediates of Remdesivir which were used to prevent shortages for the drug.

3. The company has invested in debottlenecking backward integration to minimize dependency on the supply of raw materials from China. It has also invested in upgrading its existing digital and

quality control infrastructure, set up the most modern water treatment facility, and built future community blocks with automation with maximum mechanization.

4. The main threats posed by the pandemic to the API industry were fluctuations in the cost and availability of raw material and supply chain costs and management.
5. The company has put in place several measures in order to fortify business continuity by ensuring timely procurement of raw materials, strategic implementation of production schedules, and swiftly organizing the shipment of finished products to customers.
6. The company has a cash reserve of Rs 1343 Cr with receivables of Rs 1550 Cr and an inventory of Rs 1742 Cr.
7. EU & Americas accounted for 74% of revenues.
8. The product mix for generics to custom synthesis is at 59:41 in revenue terms.
9. Constant currency growth for the quarter was 39% YoY.
10. The company is looking to expand volume production capacity and producing intermediates for gabapentin to maintain its leadership in the drug. Once the dependence on imports for intermediates is eliminated, margins will rise for this product.
11. Out of the proposed Rs 1800 Cr of capex, Rs 1000 Cr has already been implemented last year while the rest is under implementation.
12. The company also expects around 25-30% production jump after the implementation of the debottlenecking backward integration. The main aims of the capex plan are:
    1. Debottlenecking backward integration.
    2. Introduction of new generic products.
    3. Custom Synthesis.
    4. Expanding the company's manufacturing for the key building blocks for key generic APIs for which the company is currently dependent on China.
13. The completion of the capex is also dependent on certain regulatory submissions and clearances.
14. The main reason for all API companies in India doing well is the rise in volumes to replace Chinese supplies.
15. Carotenoids sales have improved to Rs 127 Cr in Q1. This mainly driven by the rise in COVID-19 as Carotenoids are a natural immune booster.
16. The units completed in Feb and March 2020 have only completed their validations and have yet to be commercialized.
17. The prices for products like dextromethorphan has remained stable in Q1 and may have increased slightly due to additional logistical costs.
18. The company is waiting for a legal resolution with the Govt for the Kakinada plant before forming any capex plans for the site.

19. The management remains confident that the company will be able to meet any surge in demand given the planned capacity.
20. As with the API industry benefiting from the China replacement phenomenon, the custom synthesis industry in India is also expected to benefit similarly.
21. The gross block addition in Q1 was at around Rs 215 Cr.
22. The management has stated that the company is operating at peak utilization levels.
23. The management has stated that the company may not be eligible for the PLI scheme in APIs by the Govt of India as most of the company's sales are in exports.
24. The management mentions that there were indeed some one-offs and lumpy revenues in Q1 due to COVID-19.
25. The management has stated that the company remains focused on its main strength of inventing new technologies to improve yield conversions on in-demand molecules and this provides the company with more opportunities with big pharma companies.
26. In terms of margins, custom synthesis can go up to 55% or as low as 40% while generics can go anywhere between 45% to 60%. Thus overall margins can vary between 40-60% depending on the mix.
27. The company is not concerned too much with the announcements by big innovator pharma companies to set up API production as it would not yield any sustainable cost advantages as compared to outsourcing to companies like Divi's. Also getting regulatory clearance is a time-consuming process which is another roadblock in this path.
28. The company has no plans to get into the biologics space at the moment.
29. The management has stated that the opportunity size for APIs remains the same despite COVID-19. Only the nature of this opportunity may have changed.
30. The company stands ready to make any required capex if needed in case of a surge in demand for custom synthesis.

Analyst's View:

Divi's Labs has been a celebrated API manufacturer in India for a long time. The company is doing well and differentiating itself from the rest of the Indian Pharma industry by continuing to hone its efforts in maintaining its dominance in the API industry and Custom Synthesis. It had a phenomenal performance in Q1 with 47% revenue growth and 81% PAT growth. Though the management has admitted that Q1 had some one-off and lumpy sales, there is no denying the fact that the company is set to benefit immensely from the general industry shift away from Chinese API makers. It remains to be seen how the company will be able to chart its path in the future by solely relying on its core areas of API and Custom Synthesis while everyone else in diversifying into as many emerging segments as they can. Nonetheless, given the company's history of excellent performance and its standing in the global API industry, Divi's Laboratories remain a pivotal pharma stock in India, especially given the massive China substitution opportunity.

Dr Reddy's Laboratories

Financial Results & Highlights

Brief Introduction:

Dr. Reddy's Laboratories Limited operates as an integrated pharmaceutical company worldwide. It operates through three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and Proprietary Products. Dr. Reddy's Laboratories Limited operates as an integrated pharmaceutical company worldwide. It operates through three segments: Global Generics, Pharmaceutical Services and Active Ingredients (PSAI), and Proprietary Products. The company also engages in developing therapies in the fields of oncology and inflammation.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3889	2980	30.50%	2979	30.55%
PBT	1361	693	96.39%	444	206.53%
PAT	950	548	73.36%	503	88.87%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	4514	4288	5.27%	4522	-0.18%
PBT	901	869	3.68%	736	22.42%
PAT	595	677	-12.11%	781	-23.82%

Detailed Results:

1. Consolidated revenues were up a modest 5% YoY while profit saw a fall of 12% YoY in Q1.
2. EBITDA was flat with only 2% YoY growth. EBITDA margins were at 26.3%.
3. Revenue growth was mainly on the back of good performance in the PSAI and European markets.
4. PAT decline was mainly due to discontinuation of weighted deduction on R&D and completion of tax holiday for one of the company's plants.
5. Q1 also saw a settlement of Rs 346 Cr. Adjusting for it EBITDA would be up 47% YoY and PBT up 74% YoY.
6. Gross margins improved to 56% in Q1FY21 vs 51.7% last year.
7. R&D expenses increased 10% YoY to Rs 398 Cr which is 9% of sales in Q1.
8. North America saw revenue growth of 6% YoY with 6 new product launches (Fenofibrate Tablets, Nitroglycerin Patch, Amphetamine Sulfate Tablets, Desmopressin Acetate Ampules, Colchicine Tablets, and Abiraterone Acetate Tablets).
9. The company filed 5 new ANDAs in Q1 and has around 99 ANDAs and 2 NDAs pending for approval.
10. India saw a revenue decline of 10% YoY on account of lower sales volume owing to lower prescriptions and fall in patient footfall in pharmacies/clinics due to COVID-19.
11. The company completed the acquisition of select business from Wockhardt including the manufacturing plant located in Baddi.

12. The company launched 4 new products in India in Q1.
13. The company grew 9% YoY in other markets. Russia declined 17% YoY due to lower volumes due to COVID-19 while CISR grew 15% YoY due to higher volumes and new product launches. The Rest of the World saw growth of 56% YoY due to the introduction of new products in new markets.
14. EU saw growth of 48% YoY to Rs 355 Cr with growth driven by new product launches and increased volumes across all markets.
15. Global Generics segment revenue grew 6% YoY to Rs 3510 Cr
16. PSAI segment saw growth of 88% YoY due to:
    1. Good order book position leading to an increase in volumes
    2. New product sales
    3. Favourable forex movement
17. The proprietary products segment declined 80% YoY to Rs 5.6 Cr due to the absence of the Neurology franchise products which were sold off last year.
18. The company has filed 16 global DMFs and 1 US DMF under the PSAI segment.
19. The capex done in Q1 was at Rs 150 Cr. Net debt to equity was at 0.02 as of 30th June 2020.
20. The company has cash and cash equivalents of Rs 2822 Cr as of 30th June 2020.
21. The company's top priority remains to launch COVID-19 drugs Avigan and Remdesivir in Key markets.

Investor Conference Call Highlights

1. The company had a free cash flow generation of Rs 925 Cr before the pay-out for business acquisition from Wockhardt.
2. ROCE for Q1FY21 was at 23.6%
3. SG&A spend for the quarter increased 6% YoY mainly due to higher freight due to a shortage of carriers for export.
4. The effective tax rate for the quarter was 34.1%.
5. Net debt for the company was at Rs 336 Cr as of 30th June 2020.
6. In the proprietary products business, the company secured the approval of its first NCE under 505(b)(1) pathway post the approval of oral liquid celecoxib formulation NDA, ELYXYB.
7. In the biologics front, the Phase III trial for rituximab is progressing well.
8. The management has stated that the move towards localization f making products in the USA shouldn't affect the company too much and innovator companies will be affected most by such a move.
9. The company saw favourable move in product mix in APIs which translated into higher gross margins. The company will keep selling APIs as long as gross margins are above 50%.
10. The management doesn't see any increasing trends in API procurement and has stated that gross margins between 51-54% is sustainable for the company.
11. Copaxone has done well for the company in Q1. The management sees the injectable portfolio rising in the near future.

12. There do not appear to be any trends in generic pricing increasing in the USA and current prices are expected to remain stable.
13. The management has stated that markets that are more related to, let's say, the hospital demand or government tenders, did better than those markets that were impacted by patient-doctor demands like India or Russia.
14. The increase in freight charges is expected to normalize going forward.
15. The increase in PSAI business was attributable to the tendency of customers to ensure adequate inventory of API in uncertain times and companies that are looking for additional reliable sources. The management also attributes this rise to the decision made 2 years ago to focus on API and on the Russian market.
16. The company has submitted a CRL for Copaxone and is yet to submit one for NuvaRing.
17. The management has stated that the incentive schemes by Govt of India in pharma are mainly in antibiotics and the company does not have a presence in this field.
18. The company is gearing R&D to enable somewhere between 10 to 25 products per year per geography. Most of these launches will be leveraged meaning the company will be using the same product for different markets.
19. The company didn't lose any output due to COVID-19 and was able to make relevant output undisrupted in Q1. The advent of COVID-19 has not brought much material change in the product mix.
20. The management believes that the main opportunities from the acquisition of the API business from Wockhardt lie in the fact that the brands were not fully utilized due to financial constraints. It believes that once adequate branding is done, there can be significant gains from this acquired portfolio.
21. The management does not exactly how the addressable market for APIs will increase from customers seeking additional sources but they believe that it will provide a significant contribution in the future.
22. The company expects to register Avigan in the USA by November if the results of the Kuwait trials come back by October as expected.
23. At the current stage, the company is not making any products for Japan. If the products made by Fuji who the company supplies to pick up well then the company will become the global producer for it.
24. The company's investments in PSAI are primarily in R&D. At the current stage, it has no plans to add capacity or newlines.
25. The management has stated that CDMO is a growing business for them in the API space.
26. In both India & Russia, the countries are opening up after a significant lockdown and thus the company is seeing positive traction MoM here. But certain segments in both countries remain under lockdown and thus it may take some time for things to normalize.

27. The company will be looking at M&A opportunities like the Wockhardt deal primarily in emerging countries, especially within India. It will be looking for a deal where it can integrate the products and assets relatively fast into the business.

28. The management acknowledges that the main lever for future growth will be R&D and leveraging the global portfolio in multiple markets. At the same time, the company has enough cash for any inorganic opportunities. There is still quite some productivity and ROI that the company can get out of investing into digital capabilities.

Analyst's View:

Dr Reddy's Labs has been one of the biggest Indian pharma companies at the global stage. The company is doing well in maintaining its strength in developed markets like the USA and EU and in expanding into emerging markets. It had a phenomenal performance in Q1 with 47% EBITDA growth and 74% PBT growth barring the settlement of Rs 346 Cr. The bulk of this performance can be attributed to the rise in the API business which rose 88% YoY. It remains to be seen how the company will be able to sustain the high gross margins seen in Q1 with the API business and how long will it take for the domestic business to normalize. Nonetheless, given the company's history of excellent performance and its standing in the global pharma industry, Dr. Reddy's Laboratories remain a pivotal pharma stock in India.

Hester Biosciences

Financial Results & Highlights

Brief Company Introduction

Hester Biosciences Limited (HBL) is a publicly traded Indian company headquartered in Ahmedabad, Gujarat, India. Hester is an animal and poultry vaccines manufacturing Company with plants situated in Gujarat and Nepal. The company currently has a 30% share of the poultry vaccines market in the country.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	39	44	-11.36%	42	-7.14%
PBT	10	15	-33.33%	7	42.86%
PAT	8	10	-20.00%	5	60.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	40	45	-11.11%	48	-16.67%
PBT	8	13	-38.46%	6	33.33%
PAT	5	8	-37.50%	5	0.00%

Detailed Results:

1. The company had a dismal quarter with 11% decline in consolidated revenues and a 38% fall in PBT at a consolidated level.
2. PAT fell 37% YoY.
3. The company made an equity investment into Texas Lifesciences of Rs 82.5 Lacs in Q1.
4. The EBITDA margin was at 34.25% in the current quarter vs 39.84% a year ago. ROE has reduced to 14.48% in Q1FY21 from 20.23% a year ago.
5. The revenue growth in Q1 for the various segments is:
    1. Poultry Healthcare: Down 11% YoY
    2. Animal Healthcare: Up 6% YoY
    3. Other: Down 11% YoY
6. The poultry healthcare still remains the biggest contributor at 77% contribution to revenues.
7. Gross margins were impacted due to the changed product mix. Low-value necessary products and vaccines were sold more rather than high-value products.
8. The company is looking to put more focus on health products as they have a bigger market than vaccines.
9. The National Animal Disease Control Program of the Government of India is expected to be implemented for the Brucella vaccine in the next few months (which was supposed to have been started from Feb 2020). Hester is one of the two suppliers for this vaccine.

10. Hester Nepal saw a dramatic fall in revenues due to lockdown in Nepal and FAO not tendered for PPR vaccines in Q1.
11. Texas has raised INR 15 million through a rights issue to acquire assets for increasing its production capacity.
12. The Texas Lifesciences unit also saw flat YoY revenue growth.
13. Hester Tanzania had a good quarter with sales of Rs 69.3 Lacs vs Rs 31.6 lacs a year ago. Profits for the unit rose to Rs 37.8 lacs vs Rs 2.5 lacs a year ago.

Investor Conference Call Details:

1. The company has reduced expenses mainly on travel.
2. The company is looking to start an animal trial for the COVID-19 vaccine in November or December.
3. Tenders for FAO orders in Nepal have started coming in.
4. The company has a diagnostics lab in Anand for sample taking for the health of flocks and cattle and it is looking to set up another such lab in Tanzania in the near future.
5. The company doesn't have any plans to enter into the companion animal space as it is still very small in India as compared to the West and the USA.
6. The company is looking to get into FMD space but has not had any concrete plans to do so yet.
7. The gross debt in India is at Rs 39 Cr as of Q1FY21.
8. Receivables have remained roughly the same as in Q4.
9. The company expects the level of Rs 125 Cr of poultry product sales to be the bottom and sales are expected to get much better than this in the future.
10. Exports form 11% of sales in Q1. This is expected to rise going forward.
11. The product selection in health products is expected to have minimal impact on margins as per the management.
12. The company expects to make up for the loss of sale from international orders for Brucella in the rest of the year.
13. The central tender to supply Brucella and PPR vaccines is fully secured.
14. There have no salary cuts for the company but it has managed to reduce travel and administrative costs as part of cost-cutting measures.
15. The opportunity for health products is immense for the company as per the management. Each big company in this space has at least 2-3 times sales in health products as in vaccines while the case in opposite for Hester with vaccine sales at 2-3 times health products sales. This is also the case for domestic players like Virbac, Zoetis, and Zydus.
16. The main reason for the big rise in Tanzania profits is the increase in product prices and profitability in Africa as compared to India.
17. The full sales capacity for Brucella for Hester currently is around Rs 40 Cr per year.
18. The company has no issues from the uncertainty of tenders from FAO as the demand for PPR remains stable and the countries that need are directly placing orders rather than wait to get the vaccine through tenders.
19. The world requirement for FAO is around $500 million per year for vaccines and the company is targeting around 10% of that figure.
20. The company supplies to almost 80% of PPR state tenders and 70% of Brucella tenders in India.
21. Brucella is a onetime only vaccine while PPR and Newcastle vaccines need to be repeated multiple times for each animal.

Analyst Views:

Hester Bio has had a tough time this year with the recession in the poultry industry and delays in the animal vaccine tenders. The growth of Nepal has stalled due to the lockdown and the absence of FAO tenders. On the other hand, Tanzania has seen good profits due to the rise in prices in the continent. The management has done well to clearly identify the growth path ahead with the focus to expand into the health products division which is still very small for the company. It remains to be seen how long the slowdown in the domestic poultry market continues and whether the industry will bounce back as soon as the company expects. Nonetheless, given their excellent technical expertise and the future potential of its international operations and its upcoming foray into animal health products, Hester Biosciences remains a good small-cap stock to watch out for.

Natco Pharma

Financial Results & Highlights

Brief Introduction:

NATCO Pharma Ltd. is an India-based vertically integrated and R&D focused enterprise, engaged in developing, manufacturing and marketing finished dosage formulations (FDF) and active pharmaceutical ingredients (APIs) and intermediates.

The Company focuses on niche therapeutics areas and complex products, which gives it a unique positioning in the market, spread over 40 countries. It sells FDF products in the US, India, Europe and Rest of the World (RoW); with substantial clientele in Canada and Brazil as well. It holds a leading market share in the domestic oncology segment.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	552	485	13.81%	459	20.26%
PBT	162	188	-13.83%	124	30.65%
PAT	127	148	-14.19%	101	25.74%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	582	513	13.45%	477	22.01%
PBT	158	184	-14.13%	117	35.04%
PAT	122	143	-14.69%	93	31.18%

Detailed Results:

1. Consolidated revenues were up with 13.5% YoY growth. Profit has fallen 14.7% YoY in Q1.
2. The company faced margin pressure in both domestic and export formulations businesses.
3. The company has guided for >25% YoY profit growth in FY21.
4. The segment revenue split is as follows:
    1. APIs: Rs 143.92 Cr
    2. Domestic Formulations: Rs 125.62 Cr
    3. Export Formulations: Rs 274.23 Cr
    4. Other Operating Income: Rs 18.35 Cr
    5. Other Income: Rs 19.95 Cr
5. The company announced an interim dividend of Rs 1.25 per share for Q1FY21.

Investor Conference Call Highlights

1. The company saw challenges in the domestic oncology business primarily due to lower hospitalization due to the COVID situation.

2. The company saw good demand in June which included pent-up demand from April and May. Most of the company's domestic portfolio in oncology driven as it is the most profitable segment for the company. This product segment was affected not only by lower hospitalizations but also by the fact that the company's scale here is driven by metros like Mumbai, Delhi, Hyderabad, Bangalore, Chennai. Chandigarh and Kolkata, all of which have been the worst hit place in India by COVID-19. The management expects things to normalize in 2-3 months and sales to come back then.
3. The management is confident of getting FDA approval for Remlivid by December.
4. Broadly the company's USA business is driven by 3-4 products. They are Copaxane, Doxil, and Lanthanum Carbonate. In Copaxane, Natco and Sandoz are the main competitors. In Doxil, the main competitor is Sun Pharma. Natco is the only generic maker of Lanthanum Carbonate in the USA.
5. The company has 2 main pandemic products which are Oseltamivir and chloroquine. These products saw good sales but have lower margins resulting in an overall drop in margins for the company.
6. The management has stated that the margins are driven solely by sales mix and it should revert back to previous levels as sales mix normalizes.
7. The company is waiting on approval from the insecticide board for Coragen and it is also expecting an outcome on litigation on the same product. The company has no new filings in place for agrochemicals.
8. The company has made a filing for a drug called trabectedin in partnership with Sun Pharma. This product has annual sales of almost $ 100 million and the company was the first 2 players to file an ANDA for it.
9. The management has admitted that its R&D efficiency has dropped due to COVID-19.
10. The profit guidance of 25% in FY21 does not include any earnings from Sorafenib. Everolimus and Lapatinib. This guidance is based solely on the order book according to the management.
11. The management expects the oncology business to be running at 75-80% of pre-COVID levels.
12. In terms of launches, the management is confident of delivering 10-12 launches each year. It has already done 5 launches in the year so far.
13. The company's previous guidance of achieving the target PAT of Rs 1400 Cr in FY22 is heavily dependent on the product Remlivid.
14. The company's new markets in Canada and Brazil are doing reasonably well. Non-USA earnings are at almost 10-15% of total earnings. The management is looking to increase this to 15-20%. It is also aiming to increase the share of India from the current 20-22% to 30-35% going forward.
15. The management has stated that the US is seeing the strengthening of high market share brands and people who are dropping out of tail brands.
16. The company will continue to stick to its focus areas of niche products and try to do a multi-market approach to get the best out of its R&D.

17. The management has refrained from commenting on the incoming flu season as there are too many uncertainties at hand.
18. The company has 2 manufacturing sites in the USA and India for Oseltamivir. So the company has no worries if any sort of Make in America compulsion arises for the drug.
19. The company has around 3 niche and 6 commodity products in the generic agribusiness segment. The market size for the 3 niche products is expected to be around Rs 2000 Cr. The company is expected to the first to make generics for these 3 niche products.
20. The management expects agrichemicals business to contribute to 10-15% of India business in the next 3 years.
21. The domestic revenue split is:
    1. Oncology: Rs 78 Cr
    2. Non-oncology: Rs 25 Cr
    3. 3rd party formulations: Rs 22 Cr
22. The management is not too concerned about the competition in the oncology business segment as the company has an established brand image and a good launch pipeline in this segment.
23. The management does not expect any significant price erosion in oncology products.
24. The management remains confident of completing the filing process with the CIB for its agrochemical filings in the next 6 months. This is because the management has stated that the filing process takes 12-18 months and the company filed for it in August or September last year.
25. The management remains confident of good performance in Canada due to the conclusion of the settlement of Remlivid and the fact that Remlivid has big demand in Canada.
26. The company is looking to make concentrated, high-value bets to expand its portfolio, add new geographies, and adding new segments of cardio and diabetes.

Analyst's View:

Natco Pharma is a vertically integrated and R&D focussed pharma company with a specialization in FDFs and APIs. Their revenues and margins have taken a hit due to pressure in both the domestic and the export market. In the export market, their dependency on the USA is still high. In the last few years, they have made some progress on expanding newer geographies, however, there is still a lot of work to be done on that front. In the domestic market, they are highly dependent on the oncology market. As the lockdown was in force, the demand for their products also fell. The management expects the demand to come back soon. However, in the long run, meaningful expansion in newer geographies around the world and adding new segments in the domestic market is going to be the points to track about the company. Despite the challenges, Natco pharma appears to be a good stock to watch out for due to the management's focus on R&D and execution of long term plans for the company.

INSURANCE

HDFC Life

Financial Results & Highlights

Brief Company Introduction

HDFC Life (HDFC Life Insurance Company Ltd.) is a long-term life insurance provider with its headquarters in Mumbai, offering individual and group insurance.

It is a joint venture between Housing Development Finance Corporation Ltd (HDFC), one of India's leading housing finance institution and Standard Life Aberdeen PLC, leading well known provider of financial savings & investments services in the United Kingdom.

HDFC Life has about 414 branches and presence in 980+ cities and towns in India.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	14509	8536	69.97%	419	3362.77%
PBT	451	437	3.20%	284	58.80%
PAT	451	425	6.12%	312	44.55%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	14521	8542	70.00%	430	3276.98%
PBT	451	438	2.97%	284	58.80%
PAT	451	426	5.87%	312	44.55%

Detailed Results:

1. The company saw an income rise of 70% YoY in Q1. PAT grew 6% YoY in the same period.
2. This rise in income is mainly due to the rise in income from investments.
3. There was a 43% YoY fall in the value of New Business (VNB).
4. Individual WRP (Weighted received premium) fell 19% vs industry fall of 23% and individual APE (Annualized Premium Equivalent) fell 22% YoY while Total APE also fell by 30% YoY.
5. The new business premium fell by 33% YoY while the renewal premium grew 24% YoY. The new business Margin was at 24.3% while operating return on embedded value was at 15.8% vs 19.9% a year ago.
6. There was also a 48% YoY fall in Protection APE while Individual Protection APE grew by 50% YoY.
7. Total AUM and Net Worth grew 8% and 22% YoY respectively in the year.
8. Indian Embedded Value grew 17% YoY.
9. The company maintained a solvency ratio of 190%.

10. Ranked #1 in terms of Individual WRP with market share expanding by 100 bps from 17.5% to 18.5%. The overall market share for the company within the group and the new business segment rose to 20.7%.
11. As of 30th June 2020, the AUM was at Rs 1.4 Lac Cr and had a 68:32 debt to equity mix. 97% of debt investments were in G-Sec and AAA-rated bonds.
12. The product mix was at: UL: 27%, Par: 30%, Non-par savings: 28%, Protection: 11%, Annuity: 5%.
13. The operating expense ratio was maintained at 11.5% vs 13.4% a year ago.
14. To be included in the NIFTY50 index from 31st July 2020.
15. The proposed Sub-debt instrument was rated [ICRA]AAA(Stable) by ICRA/CRISIL as and AAA/Stable by CRISIL.
16. HDFC Pension Fund saw AUM growth of 69% YoY to Rs 99.7 billion while market share rose to 32% from 28% last year.

Investor Conference Call Highlights

1. The management remains cautious about the trends going on so far given the possibility of multiple lockdowns going forward and the consequent impact on jobs and small businesses.
2. The management expects the term and annuity products to do well and grow in the near future while ULIPs will continue to go slightly from current levels.
3. The management continues to stress that the company's focus remains on brand promise and technology rather than pricing. The company will not be willing to compromise on service quality or brand image for pricing.
4. The management stated that Sanchay Par has immediate cashback which is an attractive sell to people who may have stretched budgets and may have sudden cash requirements. This is mainly for younger people with immediate expenses while non-par maybe for people above the age of 50.
5. There hasn't been much impact of the change in RFR on the Value of New Business.
6. This is because the company constantly reprices almost every month whenever there is a significant shift in the economic parameters.
7. The company has decided to not do any new hiring and to instate bonus cuts and not do increments to limit manpower costs. It has also focused on reducing discretionary expenses by promoting the use of technology to service customers and onboard new customers.
8. The management has stated that there has been a good response from the Bancassurance channel with cross-selling and reaching out to customers. Although bank traffic has gone down due to the pandemic, the digital reach out has expanded significantly.
9. The management has stated that persistency has taken a hit and ULIP has seen the most stress out of all products.
10. The management has maintained that the longer term for Sanchay Par is there to focus more on longer-term par and it has a positive impact on VNB margin as well at the same time.
11. The unwind rate for Q4FY20 was kept at 7.5% as the markets had crashed and the management wanted to stay conservative at the time. So when the markets bounced back since the unwinding rate has risen to 8.4%. Unwind rate for listed insurance players varies between 8% and 9%.
12. In the economic variance of Rs 1154 Cr, around Rs 400 Cr is from equity while interest rate fall is around Rs 180-200 Cr.
13. The management states that it will not be passing on all reinsuring rate hikes and it will continue to do so in a risk-based calibrated manner where they see stress on mortality experience. Thus when the company sees certain profiles generating poor mortality, it will increase rates there.

14. The management has clarified that demand is not an issue with a non-par savings product. The company is just doing conscious demand curbing to keep a balanced product mix in current uncertain times.
15. The management is comfortable with the current solvency ratio of 190% and is looking to raise a sub-debt of Rs 600 Cr to provide an additional cushion of 15%. The management expects that the company will need more capital when the protection mix goes up significantly from hereon.
16. The management is cautious about ULIP as it has poor persistency and most customers in it are there for investment purposes and not the insurance purpose which skews the customer set from the regular insurance customer set. Another reason is that there isn't much pull left in the market for ULIP.
17. Ticket sizes for ULIP have also gone down 20% in the past 2 quarters.
18. There is a clear consolidation of market share among the top 10 players who control 88% of the pie. The ones below will struggle to break this stranglehold.
19. The management has clarified that despite being a shorter-term product, Sanchay Plus is profitable and along with Sanchay Par it helps offer customers a wide range of options to choose from according to their specific needs.
20. The management remains convinced that the par product should do good and timing for the product launch has been good as longer-term products see ready acceptance in times of market downturn.
21. The Group Poorna Suraksha plan is like an individual term where a customer can buy for a 30-year, 40-year, or 50-year term, and offer it to its employees. It works exactly like an individual term, but with a group wrapper around this providing long term retention scheme for an employer. It is also the first of its kind in the market so there is a lot of vacant market for this product to capture.
22. The company is using technology in many ways from servicing the customer to new business sales using bots in a lot of areas to handle right from customer queries to resolutions to risk management and so on. The company has also launched a platform go-to-market platform called WISE which can be used on a handheld device to product switch, right selling, run some videos, and hone down on a product, do illustration, and also do the KYC of the customer.
23. The agency and broker channels have done well to embrace this tech-driven shift. The management is waiting for the Banc channel to catch up on this as this is where large numbers will come from.

Analyst's View:

HDFC Life is one of the front runners in the life insurance industry in India. The company has gone from strength to strength and maintained a good balance of new business and existing business while consistently growing over the years. The company has done well to adapt to the new normal and remained conservative in current uncertain times. The results show a fall in new premium but renewal premium remains strong despite the tough environment. The company has also done well to take sight of the current situation and launch the Group Poorna Suraksha plan which is the first of its kind group insurance for the workforce. It remains to be seen whether the situation ahead unfolds within the company's expectations or whether we may see more uncertainty arising from COVID-19. Nonetheless, given the company's market positioning, its dynamic product portfolio, and its emphasis on the development of non-traditional channels and innovative products, HDFC Life remains a pivotal insurance stock in the country.

ICICI Prudential Life

Financial Results & Highlights

Brief Company Introduction

ICICI Prudential Life Insurance Co. carries on business of providing life insurance, pensions and health insurance products to individuals and groups. Riders providing additional benefits are offered under some of these products. The business is conducted in participating, non-participating and unit linked lines of businesses. These products are distributed through individual agents, corporate agents, banks, brokers, the Companys proprietary sales force and the Company website.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	19057	8432	126.01%	-7648	-349.18%
PBT	311	287	8.36%	172	80.81%
PAT	288	285	1.05%	179	60.89%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	19057	8432	126.01%	-7648	-349.18%
PBT	310	287	8.01%	171	81.29%
PAT	287	285	0.70%	179	60.34%

Detailed Results:

1. There was a 35% YoY fall in the Value of New Business (VNB).
2. APE (Annualized Premium Equivalent) fell 44% YoY in Q1FY21. The savings portion fell 51.5% YoY to Rs 6.09 billion while the protection segment was flat at Rs 2.14 billion.
3. The new business premium declined by 32.6% YoY. The new business margin was at 24.4%. the rise in the margin is due to the shift in product mix towards protection to 26% vs 14.6% a year ago.
4. Total AUM was almost flat YoY in the Q1FY21 at Rs 1700 billion and had a 57:44 debt to equity mix. 94.3% of debt investments were in AAA-rated bonds.
5. The company maintained a solvency ratio of 205%.
6. The cost to the TWRP ratio declined by 220 bps to 14.8% in Q1FY21.
7. The company reported slight drops of 0.5-5% in persistency across all time periods.

Investor Conference Call Highlights

1. The company has announced a partnership with the IDFC First Bank where the entire suite of protection and savings products will be made available to customers of IDFC First Bank.
2. The company saw encouraging growth in June where activity was double that of April.
3. Within the protection business, retail protection continues to dominate the mix.
4. The company has launched the revised product incorporating the reinsurance rate changes in the first week of July.
5. 13-month and 49-month persistency were at 81.8% and 63.9% respectively.
6. The development of VNB in Q1 was due to:
    1. a shift in product mix towards higher-margin products, resulting in an improvement in margins;
    2. transition in the protection product portfolio, resulting in the segment profitability being temporarily suboptimal;
    3. a decline in the new business APE for the unit-linked business, resulting in a lower absolute VNB for that business.
7. During the quarter, 97% of policies were logged on the online platform and 95% of the documents were submitted on the online platform.
8. Online payment options were availed by the customers to pay around 78% of the new business premium.
9. ICICI Bank contributed about 65% of Q1FY21 APE.
10. There was indeed a surge in protection inquiries but demand was kept down due to challenges to conduct medical tests. This demand is expected to come back once normalcy comes back.
11. The cost to the TWRP ratio for savings business was lower at 8.8% compared to 11.3% for the same period last year.
12. The management has stated that they expect protection prices for new products to rise by 10% to 25% from the old pricing before the 31st of March.
13. The management states that short-term product mix will lead to margin expansion. Once the economy comes back to normal in the medium term, top-line growth shall resume.
14. The management remains confident of doubling its FY19 VNB in 3-4 years as guided before.
15. The management maintains that the company remains a more retail protection-oriented company.
16. The negative surplus in the par life category is expected to get adjusted by the end of the year.
17. The focus in this product grouping of nonpar guaranteed return products would be on annuities.
18. The management does not expect any further price hikes from reinsurance for the near future.
19. The new product launched in July is an all-in-one product, which includes the critical illness cover and a proposition to add a term and health together.
20. The major sources for cost reduction are discretionary expenses related to sales, marketing, and travel. Another major source is the freezing of wage hikes.
21. The nonlinked business overall grew at about 13% and it contributes to almost 75% of the VNB.
22. Even in areas with higher cases of COVID-19, the demand for the protection product remains intact.
23. The protection opportunity is very large for India with only an estimated 8% being covered at present.
24. Total costs are down 21% YoY. The management believes that as the momentum for nonlinked savings products continues it will become more affordable for the company.

25. The variations in channel persistency are mainly due to the different product mixes in those specific channels.
26. 95%+ of the protection APE from the Banca channel is from ICICI bank.
27. The company's penetration in bank partners' customer base is so small that there aren't many multi-product sell opportunities. The first priority is still to get the bank customers to buy their first term life product.
28. Less than 10-15% of retail protection APE comes from Five Pay in Q1.
29. ULIP has actually been affected because of a combination of factors like:
    1. Overall sentiment remains subdued
    2. Customers which typically pay large premiums, do not want to commit significantly long-term on a fresh contract in current uncertain times
30. ULIP declined 66% in Q1.
31. On a long term basis, ULIP margins should normalize as all in increases will be passed on in prices from July.
32. Overall for the protection business, the company retains 50% and reinsures the rest 50% at an aggregate portfolio level.
33. The management does not foresee any need to move out of our target market as such at current levels.
34. Persistency is expected to get better as the reported figures only contain data from April and May when the damage was most significant.
35. The company is encouraging its entire distribution to focus more on a goal-based approach as opposed to an investment return-oriented approach.
36. Margins in the savings business were at the same level as last year.

Analyst's View:

ICICI Prudential Life is one of the front runners in the life insurance industry in India. The company has established itself as one of the mainstays of the private insurance industry since its start more than 40 years ago. The company has done well to shore its reserves and maintain balance sheet resilience in the face of the ongoing crisis. The performance of the company's protection business is particularly encouraging. The core demand for new protection products remains intact. But the company could still face major hurdles in its path from the uncertainty in equity markets and the reliance on ULIPs which have declined by a sharp 66% in Q1. It remains to be seen how the COVID-19 situation unravels and how the company will be able to fulfill its guidance for doubling FY19 VNB. Nonetheless, given the company's market position, track record, and reach in the market, ICICI Prudential is a pivotal insurance stock to watch out for.

SBI Life

Financial Results & Highlights

Brief Company Introduction

SBI Life Insurance is a joint venture life insurance company between State Bank of India (SBI), the largest state-owned banking and financial services company in India, and BNP Paribas Cardif. BNP Paribas is a French multinational bank and financial services company with global headquarters in Paris. SBI owns 62.1% of the total capital and BNP Paribas Cardif 22% of the capital. Other investors are Value Line Pte. Ltd. and MacRitchie Investments Pte. Ltd., holding 1.95% of the total capital each and remaining 12% with Public.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	16178	9644	67.75%	5675	185.07%
PBT	388	378	2.65%	522	-25.67%
PAT	391	372	5.11%	531	-26.37%

Detailed Results:

1. There was a 31% decline in the Value of New Business (VNP).
2. IRP (Individual Rated Premium) and APE (Annualized Premium Equivalent) declined 36% & 32% YoY while Total Protection NBP fell by 33% YoY.
3. The new business premium fell 3% YoY. The new business Margin was at 19.9%.
4. The company maintained a solvency ratio of 239%.
5. The company saw a fall in its private market share based on IRP to 18% from 21.5% a year ago.
6. Total AUM and Net Worth grew 19% and 17% YoY respectively in the quarter.
7. As of 30th June 2020, the AUM was at Rs 1469.5 billion and had a 76:24 debt to equity mix. Over 90% of debt investments were in AAA-rated bonds.
8. The operating expense to the gross premium ratio declined 30 bps YoY to 7%.
9. Total Cost to gross premium ratio was at 10.1% from 11.2% a year ago.
10. The company reported minor drops improvement in persistency across all time periods.
11. The company achieved market leadership in Total NBP with 23.9% private market share improving 398 bps YoY.
12. Individual NBP from Non- par segment has increased by 50% YoY.
13. increase in GWP by 14% to 76.4 billion in Q1 FY 2021 mainly due to strong growth in renewal premium by 30% from 35.4 billion in Q1 FY 2020 to 45.8 billion in Q1FY 2021.
14. Protection and annuity market share were at 26% which is up 656 bps YoY.
15. ULIP maintains a dominant revenue share at 48%.
16. In distribution channels, Banca channels account for 56% of APE while Agency and other accounts for 26% and 18% respectively.

Investor Conference Call Highlights

1. Share of individual premium in new business stands at 24% mainly due to higher sales in the annuity.
2. The annuity business grew 171% YoY.
3. Instant protection product sold through Yono app has covered more than 1,96,000 lives in the quarter.
4. Other channels grew 76% YoY in terms of new business premium.
5. 97% of individual proposals are submitted digitally and 22% of proposals are processed through automated underwriting.
6. The management is targeting marginal growth over the last year. They expect to catch up on the lost business for the rest of the year.
7. The company provided an additional grace period of one month for the repayment of premiums.
8. The management expects to achieve individual targets. It expects strong demand for protection space and the company will be looking to launch new products in these segments.
9. The company is also eyeing good numbers for individual and group segments.
10. Total group protection business done is Rs 324 Cr out of which Rs 274 Cr is for credit life.
11. Price increases have been lower than peers to balance affordability for customers and to maintain a certain profit margin. Overall margins are expected to stay stable and increase after the repricing as volumes will rise due to competitive pricing and margins will be better than before the repricing.
12. The management sees good potential in the Yono app as it has already exceeded the premium earned in the whole of last year in Q1 only.
13. The company will not be stopping existing products to push new protection products.
14. Similarly, guaranteed products will also be sold as long as demand is there for the product. The management does expect the demand for this product going down due to return going down but it still remains uncertain as to how the situation will pan out.
15. June accounted for 60% of the protection premium earned in Q1.
16. The conservative assumptions taken in March 2020 are still in place for making any estimations for the company.
17. The management expects approval to sell new protection products by the end of Q2.
18. In individual protection, 80-85% is from the ROP product.
19. The company was able to cover for the shortfall in new inquiries in credit life by selling this product to loan takers who have taken loans in the past 1-2 years. This is because a customer may be in a better state of mind to take this product once some time has passed since the initiation of the loan. This represents a good opportunity for the company to leverage the existing customer base in its bank channels.
20. The non-par business was at Rs 350 Cr out of Rs 155 was for individual annuity and Rs 194 Cr was for a non-par guaranteed savings plan.
21. The board mandated requirement for solvency is at 180%. The company's solvency in March was at 1.95 times which could be considered to be at its lowest as asset prices were at their lowest at that time.
22. The management will keep products as long as margins are protected. If margins are adversely impacted, then the company may scale back or discontinue the particular product.

23. Without the change from product mix and the risk-free rate, margins would have appreciated substantially in the quarter.
24. Internally the management tracks persistency in a rolling 12-month basis which helps normalize volatility in certain months.
25. VoNB margin is calculated in the month of inception at a risk-free rate for 12 months. For savings businesses, when interest rate rises, margins rise. For the protection business, the impact of an interest rate rise is neutral. For ULIP, the interest rate rise causes margins to fall. In overall margin will be dependent on the product mix and change in interest rate.

Analyst's View:

SBI Life is one of the front runners in the life insurance industry in India. The company has done well to establish itself as the biggest private insurance company in India in terms of AUM and market share. The company has seen a big drop in APE but the growth in non-par has been very encouraging. The company has done well to use the Yono app by SBI to get new customers in a period where physical channels have stayed subdued due to COVID-19. The focus of the management remains to focus on protection products as it sees good potential in this product segment and the company aims to stay competitive and drive volumes in this segment. It remains to be seen whether the situation ahead unfolds within the company's expectations or whether we may see more uncertainty arising from COVID-19. Nonetheless, given the company's market positioning, its emphasis on cautious capital allocation, and the rapid proliferation of the company's products through digital channels, SBI Life remains one of the most preferred life-insurance companies in the country.

LIFESTYLE PRODUCTS

Vaibhav Global

Financial Results & Highlights

Brief Introduction

Vaibhav Global is a company dealing in fashion jewellery and lifestyle products. They mainly source and assemble their products in India and South East Asia and sell these products in the US and UK primarily. They sell both to businesses and retail customers whom they reach through TV sales channels and shows through they reach more than 100 million TV homes in the US and UK.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	77	109	-29.36%	198	-61.11%
PBT	0	10	-104.00%	108	-100.37%
PAT	0	8	-103.75%	106	-100.28%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	555	444	25.00%	502	10.56%
PBT	67	45	48.89%	48	39.58%
PAT	53	36	47.22%	40	32.50%

Detailed Results:

1. The company had a good quarter with a consolidated revenue rise of 25% YoY and PAT rise of 47% YoY. Retail revenues rose 32% YoY.
2. EBITDA grew 42% YoY with margins at 14.1%.
3. The company has declared an interim dividend of Rs 5 per share.
4. TV sales accounted for 63% of sales while web sales accounted for 37%. Mobile sales accounted for 59% of web sales in Q1.
5. Non jewellery items now account for 36% of sales.
6. The company has a TV reach of 75 million households in the USA and 25 million households in the UK.
7. The key demographic for the company remains the age group of above 45 which 83% of which still prefers watching traditional TV.
8. The revenue growth in different categories in Q1 is:
    1. TV sales: 24.8% up YoY (Rs 342 Cr)
    2. Web sales: 47% up YoY (Rs 203 Cr)
    3. B2B: 83% down YoY (Rs 5 Cr)
9. Shop LC revenues grew 20.3% YoY to $51 million in Q1.
10. TJC UK revenues grew 31.5% YoY to GBP 17.1 million in Q1.

11. TV sales volumes have risen to 1.88 million in Q1 from 1.35 million last year. Correspondingly average selling price has fallen to $24.1 from $29.2 a year ago.
12. Web sales volumes have risen to 1.3 million from 0.93 million a year ago. The average selling price here has fallen to $20.6 from $21.3 a year ago.
13. Gross margins have risen slightly to 64.3% from 63.1% last year while EBITDA margin has risen to 14.1% from 12.4% in the same period.
14. PAT margin has also improved to 9.6% from 8.2% a year ago.
15. The company has a negative net debt of Rs 279 Cr.
16. Operating cash flow for Q1 was at Rs 87 Cr while free cash flow was at Rs 82 Cr.
17. ROE was at 26% while ROCE was at 49%.

Investor Conference Call Highlights:

1. On a trailing 12-month basis, the company served 426,000 unique customers in Q1FY21 compared to 347,000 in Q1 last year, an increase of 23% YoY.
2. The company's global supply chain network includes manufacturing setups in India and China and direct sourcing from micro-markets in more than 20 countries. When China and India were in respective lockdowns, other countries picked up the slack and kept retail operations adequately stocked.
3. New registrations in the quarter jumped to 96,000 from 36,000 the same quarter last year.
4. The company's repeat rate defined as the average annualized quantity purchased by each customer on a trailing 12-month basis stood at 27.2 pieces per customer compared to 30.5 customers last year. The customer retention rate stands at 50.5% from 50.2% in Q1 of last year.
5. The management continues to guide for 15-17% revenue growth in FY21 keeping in mind the uncertainties ahead.
6. In the last 3 years, the company increased its market share in the UK from 1.5% to 3% emphasizing huge room for market capture and growth for the company.
7. The company is still 1/3rd as efficient as Amazon in its warehouse operations thus showing room for operational efficiency. It is looking to add automation within its warehouses to do so. The majority of the company's warehouses are in the UK and the USA.
8. The company will add warehouses as soon as it runs out of capacity. It is also planning on setting up warehouses in both the East and West coasts in the USA. Right now it only has 1 location in South Central USA.
9. The gross margins for the company is almost the same in online marketplaces like Amazon and its own digital properties.
10. The company's primary focus is on moving its customers from all channels (including social media) on to digital properties or television as this increases lifetime value a lot (at least 5x according to management).
11. The current customer demographic is from 25 to 75 years.
12. In terms of age, TV has the oldest customer set while digital has a little lower set. Social media has the lowest age set.
13. TV revenue is expected to rise continuously as the company is still getting only $3 per home as compared to $25 to $ 60 for most of its competitors like QVC.
14. Currently, the company is broadcasting at less than 2 channels per home while QVC is at 3.5 to 4 channels per home. This also shows the room for operational growth for the company.
15. For the last 4 months, the company has started to advertise products through videos and still images on Facebook & Instagram. It is still early days to project the growth for this medium.

16. The cost of acquisition for new customers is still very small and this si because it has become comparatively easier to acquire customers due to a decline in footfall in brick and mortar stores.
17. The company has a waterfall systems in place, which is about more than 10 tactics to engage those customers in different ways through discounts, through offerings, through the catalog, through calling, etc.
18. The product mix has reversed already with essentials falling to 7% from 17% in the last quarter. Jewellery is rising on the other hand improving the product mix for the company. Kitchen products are also continuing to sell well for the company.
19. Marketplace sales for the company was at $4 million in Fy21 and is expected to be around $10-12 million in FY21, an increase of almost 3 times.
20. Employee and other expenses have risen 20% & 26% YoY respectively as VGL paid higher salaries to its warehouse staff and studio production teams who operated in the pandemic from the site. Without these extra costs & forex changes, the increase would have been 8-9%.
21. The OCVID cost of 4-5% is expected to reverse from Q2 onwards.
22. Other Jewellery and household products, no other products are sold back and are mostly discarded if the seals are broken.
23. Most of the unsold items are cleared off using auctions or clearance sales.
24. The company is seeing good traction in the fabric Kaftan and it has started a factory for it in Jaipur which started last month.
25. The company reiterated that it will only be going into new products which yield gross margins of above 60%.
26. The company has also been aggressively marketing to customers in OTT and streaming services to transitioning those customers to the main business.
27. The platform costs for the company on social media is 35-40% of sales currently. In online marketplaces, these costs are at 30-35%.
28. The management believes that elevated growth levels should stay as long as people continue to stay at home. Once normal activities start, growth should come down to the earlier 15-17%.
29. The company has had negligible addition to interest costs form forex impact on its working capital loan.
30. The company continues to add more than 150 products each day.
31. The company has a long term plan to enter Germany and Japan, but there are no plans to do so in the short term.
32. The most dominant competitors for the company in the UK and USA are the Qurate Group which has more than 90% market share in both countries.
33. The management has described VGL as Zara which develops its own products and sells them under the central brand, while Qurate is like Macy's which its own brands as well as third party brands.
34. The company has not any impact on its customer set from the reversal in payroll provision by the USA government.

Analyst's View:

Vaibhav Global has established itself as an influential player in the jewellery exporting and telecommerce business. They have consistently delivered good revenue growth in recent years and continue to grow their business through new selling mechanisms and product offerings. The company has had a blockbuster quarter with profit growth of more than 47% in the current uncertain times. It has expanded its customer engagement to a more varied customer base than its traditional jewellery customer set and into newer mediums like social media. The company is also looking slowly establishing its presence in the digital medium where sales growth has been the fastest. It remains to be seen how long the company will be able to maintain its current growth pace and match up to its other TV seller rivals like QVC and JTV, all of which have an established customer base and earns way higher per household than the company. Nonetheless, given the company's prudent and efficient cost management, its resilient supply chain, and its agility to introduce new products fast depending on changing situations, Vaibhav Global seems to be an interesting jewellery stock to watch out for.

VIP Industries

Brief Company Introduction

VIP Industries Ltd is an Indian luggage maker which is the world's second largest and Asia's largest luggage maker. The company has more than 8,000 retail outlets across India and a network of retailers in 50 countries. VIP's products are imported in numerous other countries. It acquired United Kingdom luggage brand Carlton in 2004. It also owns the Aristocrat and Skybags brands which are very popular in India.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	59	577	-89.77%	317	-81.39%
PBT	-57	56*	-201.79%	-6	-850.00%
PAT	-42	38	-210.53%	-5	-740.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	58	567	-89.77%	317	-81.70%
PBT	-67	55*	-221.82%	10	-770.00%
PAT	-51	35	-245.71%	10	-610.00%

*Contains an exceptional item of loss of Rs 48.5 Cr

Detailed Results:

1. The results for the quarter were dismal with a 90% YoY decline in standalone and consolidated revenues respectively.
2. The profits for the quarter grew into negative territory in both standalone & consolidated terms.
3. The company achieved a reduction in Fixed Overheads by 35%.
4. Gross Margin for VIP after netting of other income was 42%. It was mainly due to higher discounts and a high mix of India produced goods sales rather than Bangladesh production.
5. Overall Expenses were down from Rs 160 Cr in Q1FY20 to Rs 75 Cr in Q1FY21.
6. The company has a cash balance of Rs 159 Cr as of 30th June 2020.
7. The company is looking to leverage its manufacturing capability to enter into the PPE category and is starting to make face masks.

Investor Conference Call Highlights

1. The company has plans to borrow Rs 300 Cr to tide through the current tough times.
2. The management stresses that the issue that the company is facing is not on the supply side but that of demand. the travel sector has been the worst hit from the pandemic and being a travel-oriented product the demand for the company's products has dried up drastically.
3. The management has refrained from providing any specific guidance for FY21.

4. The PPE business is still very small and the management has stated that the company can make only Rs 5-10 Cr in FY21 on this segment.
5. Even if the company pays all of its creditors immediately, it has enough cash to survive on zero revenues for 6 months.
6. The management has stated that they do not have any high expectations for performance revival in Q2. The revival will solely be dependent on the developments of the virus going forward.
7. The management has stated that entry into masks is short term only as everyone is getting into this space and there are very low entry barriers in place.
8. The management is looking to increase the manufacturing of ladies' handbags. At the moment most of this category is being imported. Once manufacturing starts for it either in India or Bangladesh, the company can earn much higher margins on this product.
9. The employee expenses look flat QoQ mainly as Q4 also saw a reversal of the Director's commission and performance pay for all the employees. Overall employee expenses have fallen 35% YoY.
10. The company saw other income of Rs 18 Cr in Q1. Around Rs 14 Cr was from rent waivers, reductions, and closure of shops. Around Rs 2 Cr was from insurance claims and Rs 2.5 Cr was from one time recurring balance.
11. The stock inventory levels have not changed much as there were no meaningful sales for the company. The company is looking at secondary sales right now and has offered some distributor & dealer schemes in June and July to try and move the pipeline inventory.
12. The company has cut around 100 of its 250 exclusive retail stores as a part of its cost-cutting initiative.
13. The management asserts that the company is well equipped to cater to increasing demand. It can easily set up new facilities within 4-6 months to increase the capacity to address demand. And almost all of the RM demand from China can now be addressed from Bangladesh going forward.
14. Around 40-50% of sales are from the CSD channel. This channel was working at 50% capacity in Q1 and was the most earning channel for the company.
15. The management has stated that the company will not be losing major revenue share as the closed 100 stores had accounted for only 10% of revenues last year.
16. Currently, 35% to 40% of the stock for VIP is from Bangladesh.
17. The management has stated that the pandemic has forced them to focus on cash management vs P&L and on cost savings due to the blow to the industry demand.
18. The fastest-growing channel for the company remains e-commerce and the pandemic has further increased the significance of this channel. The company is now balancing its exposure among prominent e-commerce sellers like Amazon and Flipkart.
19. The management has stated that demand for the luggage industry should mirror domestic air traffic and increasing footfalls in shopping centres and malls.

Analyst's View:

VIP has been the market leader in the soft and hard luggage segment in India for a long time now. The company is one of the biggest luggage manufacturers in the world by volume. However, the company and the industry have been facing tough times with sales contraction due to a fall in demand and disruption from COVID-19. The company is doing well to switch to Bangladesh for soft luggage procurement and to reduce costs while acknowledging that the sales environment going forward will be tough in the short term. It has also ventured into PPE making and is focusing on increasing its ladies' handbags lines. As per the management, the demand scenario at the moment is very uncertain. It remains to be seen how fast demand comes back to the sector and how will the company fare in the meantime. Given the slowdown in travel and travel activities at the moment, demand-revival seems a distance away. Nonetheless, given the company's strong brand image and leadership position in the industry along with the resilient balance sheet of the company, VIP industries remains a pivotal mid-cap stock to watch out for.

MICROFINANCE & SMALL FINANCE BANKS

AU Small Finance Bank

Financial Results & Highlights

Brief Introduction:

AU Small Finance Bank is an Indian scheduled commercial bank that was founded as vehicle finance company AU Financiers (India) Ltd in 1996 and converted to a small finance bank on 19 April 2017.

AU Small Finance Bank has a long-standing track record of over two decades of being a retail-focused and customer-centric institution; serving low and middle income individuals and micro/small businesses that have limited or no access to formal banking and finance channels. The Bank offers a comprehensive suite of loan, deposit & payment products and services.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1410	1168	20.72%	1367	3.15%
PBT	264	259	1.93%	165	60.00%
PAT	201	190	5.79%	122	64.75%

Detailed Results:

1. The Q1 revenues for the company rose 21% YoY while profits rose 5.8% YoY. PBT was up only 1.9% YoY
2. The fall in PBT was mainly due to increased provisioning done by the bank for COVID-19. The provisioning for the quarter was Rs 181 Cr against the normal levels of Rs 31.5 Cr in Q1FY20.
3. The AUM for the company grew 17% YoY, while disbursements in Q1 were at Rs 1181 Cr including TLTRO 2.0 of Rs 246 Cr.
4. Retail loans continue to form the majority of the loan portfolio accounting for 84% of total loans in Q1.
5. Deposits have gone up 35% YoY as of 30th June '20.
6. CASA Ratio was at 16% in Q1.
7. Yield on AUM stayed stable at 14.6% in Q1 vs 14.5% a year ago. Cost of funds fell to 7.1% in Q1 vs 7.9% a year ago.
8. ROE for Q1 improved by 110 bps YoY to 15.8%. On including the profit from the sale of stake in Aavas, the ROE goes up to 17.9%.

9. Cost to income ratio for Q1 was at 41.4% vs 59.6% a year ago.
10. GNPAs declined to 1.7% vs 2.1% a year ago and NNPA followed a similar pattern and declined to 0.6% in Q1 vs 1.3% last year.
11. PCR rose to 63.7% in Q1.
12. CRAR for Q1 was maintained at 21.7%.
13. NII for the SFB rose 30% YoY while other income rose 48% YoY.
14. The company maintained a comfortable LCR of 150% in the quarter.
15. Rajasthan remains the biggest market for the company with 42% of AUM disbursed and 279 branches in the state.
16. Complete Moratorium has been availed by 11% of total customers by value.
17. The company has made Rs 181 Cr of the provision in Q1 including Rs 140 Cr for COVID-19. This brings total provision for COVID-19 up to Rs 278 Cr which is around 1% of total gross advances and 10% of moratorium book.
18. Overall collection efficiency improved to 90% in June from 54% in April.
19. SA deposits grew 14% QoQ despite the disruptions in Q1. Currently, all branches are operational for the company.

Investor Conference Call Highlights:

1. The number of employees in offices and field has improved to 93% in June.
2. The main focus of the company in Q1 was to maintain customer engagement and to ensure that NPAs stay stable for the company.
3. The company also saved a lot of discretionary expenses as no disbursements took place in the quarter.
4. The management is comfortable with the company's current other business lines and they are mostly looking to focus on their core business of providing banking and additional services like credit cards, etc in rural and semi-urban India.
5. The management admits that insurance, investment, and payments remain focus areas for the bank but it will take time to grow and consolidate its brand image in these spaces for AU.
6. The management maintains that it will continue to lend to NBFCs purely base on opportunity basis and it was never a franchise business for the company. The company has internally set a cap of NBFC lending at 10% of total assets.
7. The wheels segment has been lower than the industry average for the company as it is mainly concentrated in major cities like Bombay, Delhi, Pune, Ahmedabad, and these areas have seen commercial passenger vehicle usage remain subdued due to COVID-19.
8. In normal times, 80% of EMIs are expected to be paid each month. This % is expected to be at 72-73% in July and 77-78% in August.

9. The management states that as uncertainty due to COVID-19 & lockdown went down and businesses opened up, loan repayments also rose as customers realized that the interest outgo would be larger in the case of the moratorium. Collection efficiency was at near 95% which was also aided by the fact that the company built on momentum fast since opening after the lockdown.
10. Currently, the bank is carrying liquidity of Rs 7000 Cr. owing to uncertainty ahead.
11. According to the management, constant customer engagement was what enabled the bank to grow its deposit base despite setbacks to the industry like the Yes Bank crisis and COVID-19. The entire focus is to build a relationship-oriented granular retail business on the ground which is reflected in the retail and SA deposit base growth.
12. The company is also moving towards quality-oriented and profile-based customer acquisition particularly the professional and salaried segment.
13. 67% of all customers have made full payment on their pending EMIs.
14. Collections for Q1 was at Rs 2200 Cr.
15. All the disbursements in the wheels division have been made to existing customers only. The company has also made a conscious decision not to disburse in cash in this business segment.
16. Most of the NBFC book is lent to large NBFCs with AAA or AA rating.
17. The management expects the impact of COVID-19 to be worse than that of demonetization.
18. The company has a very small book in commercial loading vehicles and that too is mostly in rural.
19. There is an incremental growth of around Rs 700 Cr in retail term deposits in Q1.
20. The core focus of the bank is to build retail, granular deposit base with a larger focus on CASA this year.
21. Incremental funds raised in Q1 were at Rs 10,000 Cr.

Analyst's View:

AU Small Finance Bank has been a fast-rising player in the banking and microfinance sector in the country. The company has differentiated itself from other microfinance players by structuring themselves early as a commercial bank accepting savings and term deposits. The company made good progress in the quarter in almost all operational metrics and has been performing well in the tough economic conditions and strengthening its brand in the market. The bank has done well to keep engaging its customers in such trying times and to maintain enough provisioning and liquidity for uncertain situations. This has led to an exemplary operational display of growth in SA deposits of 14% in Q1 despite all the disruptions from COVID-19. It remains to be seen how the whole COVID-19 situation pans out and how will the moratorium ending pan out for the bank and the industry in general. Nonetheless, given the company's good performance record, its robust customer engagement, and its prudent management of its AUM, AU Small Finance Bank remains a good small finance stock to watch out for.

CreditAccess Grameen

Financial Results & Highlights

Brief Introduction:

CreditAccess Grameen Limited (formerly known as Grameen Koota Financial Services Pvt. Ltd.) is a microfinance institution providing a wide range of financial services to the rural poor and low-income households, particularly women. It is registered with the Reserve Bank of India under the NBFC-MFI category. The company provides loans primarily under the joint liability group (JLG) model. Its primary focus is to provide income generation loans which comprised 87.02% of its total JLG loan portfolio, as of March 31, 2018. It also provides other categories of loans such as family welfare loans, home improvement loans and emergency loans to existing customers.

CreditAccess Grameen is also an aggregator of the National Pension Scheme (NPS) of the Government of India. As of March 31, 2018, CreditAccess Grameen had 516 branches across 132 districts in the states of Karnataka, Maharashtra, Madhya Pradesh, Chhattisgarh, Tamil Nadu, Odisha, Kerala, Goa, and the union territory of Puducherry.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	511	377	35.54%	461	10.85%
PBT	86	148	-41.89%	30	186.67%
PAT	64	96	-33.33%	23	178.26%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	620	377	64.46%	482	28.63%
PBT	100	148	-32.43%	41	143.90%
PAT	75	96	-21.88%	31	141.94%

Detailed Results:

1. The company had a good quarter with more than 65% growth in YoY revenues. There was additional growth in revenues due to the addition of Madura MFI revenues in Q1FY21 as well which was not present last year.
2. The profits for the company fell 22% YoY while PBT declined 32% due to an increase in expenses (impairment of financial instruments) and increased provisions.
3. GLP grew 54% YoY to Rs 11,724 Cr. Standalone GLP grew 27% YoY. MMFL GLP grew 6.5% YoY.
4. The customer base expanded to 4.01 million. The standalone customer base grew to 2.876 million which is up 12.2% YoY. MMFL's customer base grew 15.9% YoY.

5. NII has risen 55.2% YoY to Rs 383 Cr. PPOP grew 56% YoY at Rs 255.6 Cr.
6. Total ECL provisions were at Rs 476.8 Cr which is at 4.21% of the loan portfolio.
7. The total COVID-19 additional provisioning buffer was at Rs 245.6 Cr which is at 2.17% of the portfolio.
8. RoA and RoE was at 2.2% and 10.3%.
9. GNPA was at 1.62% while NNPA was at 0%.
10. The liquidity position was at Rs 1377 Cr as of 30th June 2020. CRAR was at 23.7%.
11. On-time centre meetings with >98% customers. CAGL recorded a collection efficiency of 74% in June/ 76% in July. MMFL (Madura Micro Finance Ltd) recorded a collection efficiency of 54% in June/ 64% in July.
12. CAGL: Moratorium book down from 100% in April& May to 26% in June and 24% in July.
13. MMFL: Moratorium books down from 99% in April to 90% in May, 46% in June, and 36% in July.
14. Debt to equity was at 3.3 times. Standalone debt to equity was at 2.9 times.
15. Standalone cost to income ratios was at 31% and Opex to GLP was at 4.1%.
16. The weighted average cost of borrowing was at 9.4% vs 10.3% a year ago.
17. Positive ALM mismatch with an average maturity of assets at 17 months and average maturity of liabilities at 25.2 months.
18. Disbursements were minimal in Q1 with only Rs 46 Cr done.
19. GL loans accounted for 94.9% of total loans with the rest being retail finance.
20. GL loan usage breakup was:
    1. Animal Husbandry: 45%
    2. Trading: 21%
    3. Partly Agri: 14%
    4. Production: 8%
    5. Housing: 4%
    6. Education: 1%
    7. Others: 7%
21. Only 1 district now has >4% of the total loan portfolio.
22. Karnataka remains the biggest market for the company with 40% of GLP. Maharashtra comes in second with 24.2% of GLP and Tamil Nadu is third with 19.9% of GLP.

Investor Conference Call Highlights:

1. The company is focussing on making its on-ground network and sales and customer-facing organization as agile as possible.
2. The moratorium was only provided to those who needed it.
3. Excluding Maharashtra, collection efficiency in July shall exceed 80%.
4. The company has also kept on the annual increment and bonus plans to maintain employee morale.
5. All the disbursal was done in cashless mode only.
6. Only 17% of customers have not made any payments and are under full moratorium. The management expects less than 4-5% of these customers to not be able to pay up once the moratorium ends.
7. The management has stated that if how the COVID-19 situation pans out will determine whether the company will be able to maintain its annual growth momentum.
8. The company has sufficient capital, branches, and employees to grow 10-15% in FY21.
9. The company aims to maintain growth in step with industry growth in the medium term and demand for the industry remains intact with good room for growth.
10. The models of MMFL and CAGL are different in terms of their repayment times as MMFL has monthly repayment while CAGL has weekly payments. The management expects MMFL performance should be better than other competitors with the same monthly model.
11. MMFL performed better than CAGL in Karnataka.
12. The company has started providing repeat loans to groups who have made full repayments.
13. Collections were mainly hampered due to local lockdowns in states and districts.
14. Disbursements are expected to grow as new customer acquisition shall start once COVID-19 comes down and growth comes back as it does seasonally in H2 each year.
15. The management expects a 4-5% increase in collections in Karnataka as local lockdowns ease going forward.
16. The company's decision to issue CP of Rs 200 Cr is mainly to diversify funding sources and not due to any liquidity overhang.
17. The company has also taken approval for Rs 1000 Cr of NCDs to stay ready in case it needs to raise additional funds.
18. The company has already 65% of accrued interest for moratorium 1 in June.
19. The company restricts weekly meetings to 4-6 participants so that it can meet all customers within a month.
20. New groups are formed of max 5 members to ensure adequate social distancing norms.
21. There aren't any specific fault lines exposed in the MFI business.
22. The change in operations is happening towards digital processes which have been hastened due to the pandemic.
23. There aren't any inconsistencies in customers who have already started their repayment behaviour.
24. The company has appointed PWC for integration efforts with MMFL. Technical integration should be completed by end of FY21.
25. The company will be applying a singular operation process once the integration is completed. Even if a monthly collection policy is put in place, weekly meetings will continue to take place.
26. Customer retention remains a top priority for the company.

27. Repayment behaviour is very subjective and it is not appropriate to compare different regions as there may be different issues in different places.
28. The growth is being driven by new customer acquisition in new states and the company remains focused on expansion in these states thus reducing the contribution of the top 3 states.
29. The procedural approvals will take some time for the merger and it is expected to be completed in due course.
30. The availing moratorium is not applied at the group level and is only put up at an individual level.
31. The management expects normalcy in businesses to come back in 5-6 months.
32. Initial installments that were paid after the moratorium will be used to pay off the accrued interest portion and the loan period will get extended.

Analyst Views:

Credit Access Grameen has emerged as one of the most reliable microlenders in the country. Their revolutionary JLG model has helped bring communities of borrowers together and helped reduce overall risk from their lending to a very large extent as seen in their low NPA numbers. The company has delivered a stellar Q1 performance despite the challenges from lockdown and COVID-19. The company was able to maintain GLP growth and keep operating expenses down while increasing collection efficiency once lockdown ended. The company's acquisition of Madura Microfinance which should help the company gain a ready and set customer base with good data and history of repayment as well as continue its pace of expansion. It remains to be seen whether the company will be able to maintain its current growth pace of >30% in FY21 given the integration issues with MMFL and the ongoing COVID-19 pandemic. Nonetheless, given its strong market position and exemplary operating and risk management practices, Credit Access Grameen remains one of the must-watch stocks in the Microfinance sector for any interested investor.

Equitas Holdings

Financial Results & Highlights

Brief Introduction:

Equitas Small Finance Bank is a small finance bank founded in 2007 by Equitas as a microfinance lender, with headquarters in Chennai, India. After receiving license from the Reserve Bank of India (RBI) on 30 June 2016, Equitas began banking on 5 September 2016 as a subsidiary of holding company Equitas Holdings Ltd. With effect from 4 February 2017, Equitas became a scheduled bank. The small finance bank remains a subsidiary of Equitas Holdings.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	5	6	-25.00%	5	-10.00%
PBT	4	4	0.00%	3	33.33%
PAT	3	3	0.00%	1	200.00%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	787	663	18.70%	803	-1.99%
PBT	67	108	-37.96%	23	191.30%
PAT	52	70	-25.71%	16	225.00%

Detailed Results:

1. The consolidated revenues for the company rose 18.7% YoY while PBT fell almost 38% YoY. PAT also fell 26% YoY in Q1.
2. The Advances for the company grew 27% YoY in Q1, while disbursements were at Rs 564 Cr a decline of 79% YoY. 76% of advances is secured loans.
3. Deposits excluding CD grew to Rs 11,471 Cr which is up 30% YoY and 11% QoQ. Retail TD grew 96% YoY & 15% QoQ to Rs 4,377 Cr.
4. CASA ratio for the quarter was 21% at Rs 2,354 Cr. LCR is at 139%.
5. The bank made provisions of Rs 68.34 Cr including COVID-19 provision of Rs 45 Cr in Q1. Total provisioning for COVID-19 to date came up to Rs 144.63 Cr.
6. GNPAs were at 2.68% & PCR was at 48.79%. The cost to income has gone down to 66.41% in Q1 from 69.09% last year. Overall opex rose 5% YoY. Opex to total average assets was at 5.74% in Q1 vs 6.76% last year.
7. NIM was at 8.63% in Q1 and NII rose 20% YoY. The cost of funds was at 7.63%.

8. RoA & RoE were at 1.2% and 8.72% respectively for Q1.
9. The company added 57,044 new accounts under digital means in Q1. Equitas SFB has now gone live with video KYC.
10. Total CRAR was at 21.59% with Tier 1 at 20.61%.
11. The lending spread increased to 11.18% in Q1 from 10.67% last year.
12. The loan book breakup is as follows:
    1. Microfinance: 23% of the loan book, 16% YoY growth
    2. Small Business Loan: 42% of the loan book, 32% YoY growth
    3. Vehicle Finance: 24% of the loan book, 25% YoY growth
    4. MSE Finance: 5% of the loan book, 154% YoY growth
    5. Corporate Loans: 5% of the loan book, 39% YoY growth
    6. Others: 1% of the loan book, 38% YoY decline
13. Tamil Nadu is the dominant state for the company with 61.91% of advances belonging to this geography.
14. The yield on on-book advances is at 18.81%.
15. The company maintained a cash balance of Rs 429 Cr.

Investor Conference Call Highlights:

1. 90% of customers are from the informal economy who are into trading or providing of daily use goods and services.
2. The moratorium level in May was at 90% which went down to 51% in May and is at 43% for July.
3. The average loan per client excluding microfinance is at Rs 4 Lacs.
4. The total COVID-19 provisions of Rs 145 Cr is around 0.95% of total advances.
5. The company disbursed Rs 875 Cr in July which is at 75% of pre-COVID levels.
6. The company has already filed its DRHP for the upcoming IPO of Equitas SFB.
7. The company is calculating the moratorium on a monthly basis. Those who have not made their monthly payment are considered to be under a moratorium for that month.
8. The company has not yet disbursed any loans under the new MSME scheme announced by the govt. It has however registered under it. Most of the bank's customers will not be eligible for it as they are individual loan customers.
9. The management expects NIMs to stay in the current range or near 9% going forward.
10. The collection efficiency in the MSE segment is 21%.

11. The management has stated that only one segment is a cause for worry for them. It is the heavy commercial vehicle finance segment. Thus the company had taken steps before COVID to reduce volumes in this segment and focus more on small and light commercial vehicles. Now it has taken additional steps to put in loan caps and more conservative measures.

12. The company is going to focus on gold loans in the next 2-3 months. It has already launched it across 100 branches and is disbursing around 1000 loans in July. The management is expecting to double this portfolio in August.

13. The company has streamlined the loan process so that the end to end execution for a gold loan takes no more than 40 mins. It is also planning to open up the digital gold loan side in the next few months.

14. The management has stated that for the customers that have not paid their EMIs in moratorium they will not need to pay interest on that and these EMIs will instead be paid at the end of the loan thereby effectively extending the loan tenure by the number of months that the client has missed his payments. This rescheduling will not be available for everyone and it will be granted only after assessment on an individual basis on possible impairment on the client repayment ability.

15. In the vehicle finance division, around 49% of LCV customers have not availed moratorium while in HCV around 47% have not availed moratorium.

16. The SA for the bank has been divided into 2 segments. The first is the mass segment where the bank provides 3.5% interest and this segment has deposits up to Rs 1 Lac and the average ticket size of Rs 34000. In the second category are mass affluent which has to have deposits above Rs 1 Lac. The company is only offering a 7% interest rate for incremental funds above Rs 1 Lac in this category.

17. The company has reduced term deposit rates by 75 bps.

18. Overdue accounts at the end of July was at Rs 345 Cr. These overdue accounts are from cases where the company has not collected even 1 EMI in the last 4 months. This is at 11% of the customer base.

19. The LGD in used commercial vehicle business is at 40% and in small business loans, this is expected to be less than 30%.

20. In the MSE segment, 70% of loans are of CC/OD type for working capital needs. Around 65% of CC/OD loans were under moratorium in at the start. Now the figure has fallen to 32% in June and 26% in July.

21. The new circular on current accounts by RBI is expected to be beneficial for the SFB as it opens up the lower and middle areas of the supply chain for a new entrant like Equitas. In the current accounts, the company is offering 2 features which are 20% savings from the change in banking patterns and a new feature called TD suite where any deposits above a threshold value will be automatically put into TD to earn interest.

22. To maintain customer uniformity and reduce discrimination issues, the company has decided that it will only accept full payments in the case of JLG loans and not collect partial loans as it has had

a very adverse impact on customer behavior in the past when implemented. This stance is limited to microfinance only.

23. The management does not expect employee costs to go down as it will keep its current workforce and not remove anyone. It is widely expected that overall opex should remain at current levels going forward.

24. In Q1, Rs 132 Cr was disbursed to MFI customers where 15% were for new customers and 85% were for existing customers. In July, 9% was for new customers and 91% was for existing customers.

25. According to the management, Tamil Nadu is picking up faster than Maharashtra and Maharashtra should take 1-1.5 months more to recover as compared to Tamil Nadu. The management expects normalcy to come back to TN in the next 2-3 months.

26. Around 68% of SCV customers in vehicle finance have not applied for the moratorium. The demand has shifted more towards LCV from HCV. This is driven by an increase in online commercial activities and a higher quantum of home deliveries.

27. The company is still in the process of renegotiating rents in many locations. The company is also looking to leverage its investment in digital platforms to fuel growth for the company now that physical growth has been kept muted due to COVID-19.

28. The management states that rescheduling moratorium loans will be carried out on a very selective basis and it will only be applied as a last resort for customers with no other options.

29. Small business loans are not considered a high-risk segment as the average LTV here is less than 40% and in most cases, the collateral put in are the homes of customers which they will try and repay to keep out of repossession at all costs.

30. The high-risk segment according to the management is the space in vehicle finance where the customer's equity is less than the company's equity. This figure comes out to be around Rs 750+ Cr. The company is keeping track of these vehicles to ensure that they are in good condition and that the company is aware of any developments for them.

Analyst's Views:

Equitas Holdings has been one of the important players in the MFI industry in India. The company has successfully formed its own SFB which is expected to get listed in the near future and they have already released the DRHP for it. The company has done well to maintain its deposit and loan book growth despite challenges arising from COVID-19 and not expanding its branch network in the current period. The company is doing well to maintain a high customer acquisition rate through the digital medium and to have successfully implemented video KYC. Dependence on Tamil Nadu remains a big risk for the company as any adverse event in the region may drastically affect the company's performance. It remains to be seen how the company will be affected when the moratorium closes and what kind of collections it can achieve. Nonetheless, given the company's history of consistent performance and the highly anticipated IPO of its SFB, Equitas Holdings remains a good stock to watch out for in the Microfinance and Small Finance Banking market.

Ujjivan Small Finance Bank

Financial Results & Highlights

Brief Introduction:

Ujjivan Small Finance Bank Limited is a mass-market focused bank in India, catering to financially unserved and underserved segments and committed to building financial inclusion in the country. Their Promoter, Ujjivan Financial Services Limited (UFSL) commenced operations as an NBFC in 2005 with the mission to provide a full range of financial services to the 'economically active poor' who were not adequately served by financial institutions. On 7, October 2015, UFSL received RBI In-Principle Approval to set up a Small Finance Bank(SFB), following which it incorporated Ujjivan Small Finance Bank Limited as a wholly-owned subsidiary. UFSL, subsequent to obtaining RBI Final Approval on November 11, 2016, to establish and carry on business as an SFB, transferred its business undertaking comprising of its lending and financing business to the Bank, which commenced its operations from 1, February 2017. Ujjivan Small Finance Bank has a diversified portfolio with branches spread across 24 states and union and a customer base of 4.9 million as of September 30, 2019.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	775	706	9.77%	810	-4.32%
PBT	74	142	-47.89%	94	-21.28%
PAT	55	94	-41.49%	73	-24.66%

Detailed Results:

1. The company had a modest quarter with a 10% growth in YoY revenues. The profits for the company fell 41.5% YoY while PBT fell 48% YoY in Q1. These figures were subdued because of the increased provision made of Rs 140 Cr in Q1 vs Rs 19 Cr last year.
2. The company made disbursements of Rs 474 Cr in the current quarter vs Rs 2959 Cr last year.
3. The gross loan portfolio has risen to Rs 14366 Cr registering a YoY growth of 22%.
4. The non-MicroBanking portfolio now contributes 23% to the portfolio against 18% as of last year.
5. Secured loans now constitute 21% of all loans as compared to 16% a year ago.
6. GNPA in Q1 was at 1% while NNPA was at 0.2%. An additional write-off of Rs 0.08 Cr was taken in Q1. COVID-19 provisioning was at Rs 129 Cr in Q1. Total provisions for COVID-19 now stand at Rs 199 Cr.
7. Deposits were up 39% YoY at Rs 11057 Cr covering 77% of total loans vs 68% a year ago.
8. Retail deposits are now at 45% of total deposits vs 43% a year ago. CASA has improved to 14% vs 10% a year ago.
9. Net Interest Income rose 30% YoY at Rs 458 Cr.

10. Net interest margin declined slightly to 10.2% in Q1FY21 vs 10.5% a year ago.
11. Cost to income ratio was reduced to 56% from 64% a year ago.
12. ROA and ROE for the company rose to 1.2% (vs 2.7% a year ago) and 6.8% (vs 20.2% a year ago) in Q1.
13. The company maintained an LCR of 453%. CAR was at 29% with tier 1 capital at 28%.
14. The number of customers rose to 52.5 lakh from 46.1 lakh a year ago.
15. The company's recently launched digital deposit products helped add 17000 new customers for them in Q1.
16. Collection efficiency was at 54% and 59% for June and July respectively.
17. Pre-Provision Operating Profit was at Rs 215 Cr which is a YoY growth of 33%.
18. June 2020 disbursement was at Rs 370 Cr which is around 1/3rd of pre-COVID levels.
19. Loan against Rent Receivables was launched in Q1.
20. The cost of funds was reduced to 7.7% which is down 21 bps QoQ.
21. Active trading in Treasury commenced in Q1 and Rs 10.4 Cr of MTM gains realized in the shift of portfolio from HTM to AFS.
22. 4% of the total loan book was under moratorium in June.
23. Collection through digital channels rose to 37% in July.
24. The top 3 states Tamil Nadu, Karnataka, and West Bengal account for 45% of total advances.
25. 95% of MFI loans were given to repeat customers in Q1.
26. Group loans account for 66% of gross advances.
27. The average ticket size in group loans is at Rs 39068.
28. The company PCR for Q1 was at 82%.
29. Book value per share was at Rs 17.6 per share.

Investor Conference Call Highlights:

1. Collections in the housing business are around 70-75%.
2. The company has tied up with Airtel Payments Bank and is rolling out the Airtel Payments Bank points as collection points.
3. The company has seen a dramatic rise in digital collections from 16% in Q1 to 37% in July.
4. The company is in a very advanced API integration stage now.

5. The company is going to launch a BBPS integrated platform for our customers to make payments. It is expected to accommodate all apps available on BBPS for payments. This is expected to improve collection efficiency and free up a lot of time and manpower on the field.
6. The company is planning to deploy the excess field staff into early-stage businesses of personal loans and vehicle finance, mostly through tele-calling.
7. The company now has more than 7000 personnel working on the collection.
8. In terms of geography, the North had a better repayment rate followed by the South, followed by East, and then lastly West.
9. In July the company saw a better collection rate of 65% in rural vs 58.5% in urban areas.
10. Total provisions stand at Rs 370 Cr which is 2.6% of the total balance sheet.
11. The company reduced its deposit rates by 125 bps QoQ in Q1.
12. The company is now close to deploying its own video KYC solution. It is also in the advanced stages of a few other robotic process automation projects.
13. The greatest focus will be on digital acquisition for all business segments.
14. The company is looking to pilot gold loans and other variants in its existing loan products.
15. The expansion will be dependent on 3 factors which are:
    1. New product categories
    2. Cross-selling to existing customers
    3. Digital partnerships to acquire more customers and offer more services with other fintech companies
16. The company is not too concerned with the loss of income for its customer base as the majority of them are running their own business. Also, the company is always looking for a secondary source of income according to its underwriting policies. This reduces dependence on one income source for customers.
17. Nearly 50% of customers are engaged in essential services of groceries, dairy, etc.
18. The company was able to bring down costs as the cost of funds and the cost of deposits have come down for them. The management has stated that the cost of funds is likely to continue down.
19. Most of the reduction in operating expenses was due to the rise of digital and the fall in travel and related expenses. The management has stated that all of the reductions are not expected to be permanent as expenses related to the growth of the new business will indeed come back but some will sustain due to change in operating mechanisms like in the case of a rise in digital customer acquisitions.
20. The company is also looking to pay back some of its grandfathered high-cost loans since it has so much excess liquidity.
21. Opex to average assets was at 5.8% in Q1 where 5% was all fixed costs.

22. The cost to sales would have been at 59.6% vs the reported 55.9% in case no rent renegotiations.
23. The management has admitted that it is hard to say definitively how long it will take for collection efficiency to come back to above 95%.
24. In mobile-only banking, the bank has around 531,000 customers all of which are non-micro banking and retail customers.
25. The average balance in the micro banking side has come down to below Rs 1000 from Rs 1500-1600 before COVID-19 as a result of people dipping into their savings in current uncertain times.
26. The management believes that the bank is currently adequately capitalized and it should not need to raise any additional capital until the end of FY21 at least.
27. Only 6% of the customer set is part of the catering industry. Around 1% of customers are in transportation and 3% are into household help and maid services.
28. Around 21% of customers are in small scale manufacturing while 20% are in agriculture, 16% in dairy, and 16% in essential groceries.
29. In the MSE portfolio, around 20% is eligible for the CGT-MSE scheme. The bank is still finalizing the whole product program and is planning to roll it out at the end of August.
30. The interest capitalization under moratorium is at Rs 450-500 Cr.
31. In new products, the bank is looking to capitalize on its existing customer set. For example, in the recently expedited used vehicle finance division, it is targeting family members of existing micro-banking customers. It is looking to cater to the existing set of customers and strengthen relationships with them through all possible product categories.
32. In the MSME segment, the company has maintained rigorous checks which include the standard rule like three lenders, overall exposure limit, and additional checks like tele-verification which has also been implemented in Microfinance. The bank remains cautious and had reduced disbursement in May to maintain overall quality of the portfolio. As a result, the segment is seeing almost 99% repayment.
33. In the case of repeat loans to MFI customers, they have been provided the new loans only on complete payment of existing loans.
34. The management has stated that the company had borrowed Rs 600 Cr from NHB and Rs 500 Cr from SIDBI at low cost as it wanted to change of borrowing mix and reduce overall costs for the bank. The company will continue this rebalancing of the funding mix until it reaches a more acceptable level of cost of funds for ourselves, which will get reflected in its cost of deposits. It will continue to repay high-cost loans and replace them with low-cost borrowings.
35. In the case of the moratorium, the company will only add the accrued interest into the principal and it will not be looking at interest on interest in this period.
36. The management is not concerned by the higher collection efficiency by other industry players as it remains confident on its customer set and its underwriting policies and the fact that it has been generous in granting moratorium to everyone who asked for it and is not being aggressive in its collections to maintain good relationships with all customers.

Analyst's View:

Ujjivan Small Finance Bank has been one of the top players in the SFB industry. It is the biggest and most diversified company in this sector in terms of geographical reach. The company has done well to maintain deposit growth in Q1. It has also seen encouraging results in its digital acquisition efforts. The company has indeed seen low collection efficiency as compared to its peers due to the high proportion of the book in the moratorium. The bank is doing well in keeping track of its customer base and keeping in touch with them and collecting relevant survey data to identify which segments of its customer set have been affected the most from COVID-19. It is encouraging that the bank is now looking to focus on transforming its operations to a more contactless mechanism using digital techniques and concentrating on repeat business from customers with a good operational and repayment history all the while deploying its excess workforce into new product segments. It remains to be seen what is the exact extent that the MFI sector has been damaged by COVID-19 and how the industry will fare once the moratorium ends in September. Nonetheless, given the bank's industry position, its wide geographical reach, and its rising digital transactions, Ujjivan Small Finance Bank is a pivotal Small Finance Bank stock to watch for, particularly given its current valuation of just above 2 times book value.

NBFC

Bajaj Finance

Financial Results & Highlights

Brief Introduction:

Bajaj Finance is engaged in the business of lending. BFL has a diversified lending portfolio across retail, SME and commercial customers with a significant presence in urban and rural India. It also accepts public and corporate deposits and offers variety of financial services products to its customers.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	5901	5302	11.30%	6511	-9.37%
PBT	1184	1744	-32.11%	1205	-1.74%
PAT	870	1125	-22.67%	892	-2.47%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	6650	5808	14.50%	7231	-8.03%
PBT	1310	1851	-29.23%	1278	2.50%
PAT	962	1195	-19.50%	948	1.48%

Detailed Results:

1. The company had stable Q1 with consolidated revenue growth of 14.5% YoY. PAT was down 19.5% YoY in Q1.
2. The company has made an extra contingent expected loss provision of Rs 1450 Cr on account of COVID-19. This brings the total provisioning up to Rs 2350 Cr.
3. Consolidated AUM for the company has grown 7% YoY due to the lockdown which was in effect till 10th Currently around 86 locations remain closed for the company which accounts for 15% of the business.
4. The company expects 75+ cities should revert to pre-COVID volumes by October, 40-75 Cities by end November, 10-40 cities by January, and the top 10 cities by March. Based on this assessment, the company estimates the AUM growth of 10-12% in FY21.
5. In Q1, the company switched Rs 8600 Cr of term loans to Flexi loans for some of its customers with no overdue and good repayment track record.
6. The company acquired 0.53 million new customers in Q1 showcasing a YoY growth of 16%.
7. CRAR was at 26.4% with Tier-I capital at 22.6%.

8. The company's surplus liquidity as of 20th July 2020 was at Rs 20,590 Cr.
9. Deposits book rose 33% YoY to Rs 20061 Cr. The retail to corporate mix stands at 70:30.
10. Net interest income for Q4 was up 38% YoY to Rs 4684 Cr. The same figure rose 42% YoY for FY20.
11. Total Opex to net interest income came down to 27.9% in Q1FY21 vs 35% in Q1FY20. Total Opex fell 11% YoY and 20% QoQ.
12. Consolidated moratorium book was reduced to Rs 21705 Cr (15.7%) on 30th June 2020 from Rs 38599 Cr (27%) on 30th April 2020 due to a reduction in bounce rate coupled with improved collection efficiencies.
13. GNPA was at 1.4% while NNPA was at 0.5%. The company also maintained a PCR of 65%.
14. The breakup of growth in consolidated loan book is as follows:
    1. Auto Finance: 17% YoY
    2. Sales Finance: -34% YoY
    3. Consumer B2C: 17% YoY
    4. Rural Lending: 19% YoY
    5. SME Lending: 12% YoY
    6. Securities Lending: -56% YoY
    7. Commercial Lending: 3% YoY
    8. Mortgage lending: 23% YoY
15. Bajaj Housing Finance had a good quarter with AUM growth of 52% YoY and growth in net interest income of 23% YoY. PAT growth for this subsidiary was at 31% YoY. The entity's Opex to NII improved to 30.4% in Q1FY21 vs 41.4% in Q1FY20.

Investor Conference Call Highlights:

1. S&P Global downgraded the company's long-term issuer rating on account of a sectoral downgrade due to COVID-19.
2. The company has decided to reverse interest income of Rs 220 Cr on the ongoing moratorium book.
3. The company got Rs 147 Cr from fee income from conversion to Flexi loans mentioned above.
4. Keeping in mind that the ongoing pandemic is one that no one has seen before, the management wants to stay conservative in its stance and thus the company has decided to account for greater provision than required.
5. The conversion to Flexi loans was not to mitigate the impact of the moratorium as around Rs 5000 Cr of conversions were from loans that didn't go to the moratorium. The management states that the conversion option was given mainly to keeping customer convenience in mind.

6. The gold loan business is operating in 400 cities and is aggregating Rs 70 to 80 Cr of assets per month.
7. The company has added 1500 new collection officers to its force.
8. The company has kept provisioning on the moratorium AUM in auto finance book at 11.8% vs an average of 14% across other divisions. This is mainly because the company expects higher residual value due to BSVI conversion resulting in prices going up for second-hand assets.
9. The management has clarified that the amount of Rs 21700 Cr of loans that are under a moratorium for June have not paid their EMIs for June. The rest of the customers have all paid up.

Analyst's View:

Bajaj Finance is one of the fastest-growing NBFCs in India today. The company has done well to bounce back quickly from in the post-COVID situation and has seen good traction across most categories. The company has done well to convert many of its term loans to Flexi loans, increasing customer convenience, and earning fee income along the way. It has also remained conservative by increasing its COVID provisioning to Rs 2350 Cr. It remains to be seen whether there are any further disruptions in place from the evolving situation from COVID-19 in India and how it will impact the company's operations. Nonetheless, given the company's strong market position, the management drive to derive new opportunities through the use of data and technology, and its strong balance sheet position, Bajaj Finance remains a pivotal NBFC stock for all Indian investors.

Manappuram Finance

Financial Results & Highlights

Brief Company Introduction

Manappuram Finance Ltd. is one of India's leading gold loan NBFCs. Today, it has 4208 (Includes branches of subsidiary companies) branches across 28 states/UTs.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1226	951	28.92%	1191	2.94%
PBT	495	335	47.76%	461	7.38%
PAT	369	220	67.73%	340	8.53%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	1516	1201	26.23%	1618	-6.30%
PBT	492	407	20.88%	534	-7.87%
PAT	368	267	37.83%	398	-7.54%

Detailed Results:

1. The company had a good quarter with consolidated revenues rising 26% YoY and consolidated PAT rising 38% YoY.
2. RoA for the quarter came in at 4.8% while consolidated RoE came in at 25%.
3. Total AUM grew 25.6% YoY to Rs 25345.8 Cr while gold AUM grew 33.4% YoY, highlighting excellent growth in AUM from all businesses.
4. The company has a borrowing cost of 9.4% in the quarter. The cash and undrawn bank lines of the company were at Rs 6025 Cr as of Q1.
5. The share of new businesses in revenues was at 30% in Q1.
6. The book value per share was at Rs 71 at the end of Q1.
7. The company also raised fresh borrowing of Rs 1900 Cr through NCDs, CPs, and bank loans.
8. In the gold loan business, the Opex to AUM has fallen to 5.4% from 6.8% in the last quarter while security costs have gone down 72.8% YoY.
9. Gold AUM per branch rose significantly to Rs 5.03 Cr per branch vs Rs 4.38 Cr per branch a year ago.
10. The standalone business has GNPA and NNPA of 1.3% and 0.7% respectively while maintaining a CAR of 22.9%.

11. The online gold loan's share of total gold AUM has gone up to 63% in Q1.
12. In Asirvad MFI, AUM grew 20% YoY but declined 8.4% QoQ while RoE has crashed for the subsidiary to 0.2% in Q1.
13. The GNPAs for Asirvad has risen to 2.1% in Q1 vs 1.56% in Q4FY20. The NNPA is still due to the company's good provisioning. Asirvad maintained a CAR of 26.9%. The cost of funds for Asirvad was at 11.1% in Q1. Provision of Rs 75 CR added in Q1 bringing the total provision for COVID-19 up to Rs 130 Cr.
14. Asirvad now boasts of 1041 branches and a customer base of 2.3 million.
15. The Housing and Vehicle finance divisions have shown AUM growth of 15.8% and 3.5% YoY respectively.

Investor Conference Call Highlights

1. The company's gold loan portfolio which accounts for nearly 70% of the total portfolio, has a tenure of fewer than 3 months while all of the company's borrowings are long term in nature. This provides a natural hedge against short-term liquidity mismatches.
2. Growth in gold AUM was driven by a 1% YoY increase in gold holdings and rising gold prices.
3. Online gold loan customers and digital payments were up by 1.2x QoQ in Q1.
4. Average LTV is at 57% vs the RBI limit of 75%.
5. Cash and cash equivalents on a consolidated basis for the company were at Rs 5006 at the end of June. The average duration of liabilities has increased to 452 vs 260 days a year ago. CP exposure has come down to 9% vs 23% last year.
6. There was no moratorium on the gold loan book. Around 26% of non-gold businesses were under moratorium in the stand-alone entity.
7. The majority of MFI customers opted from moratorium in phase 1. Collection efficiency from MFI business was at 55% in June and it is expected to be at 70% in July.
8. 37% of customers opted for a moratorium in phase 1 in the vehicle finance business.
9. In Loan to NBFCs, the portfolio got reduced by 15.5% QoQ.
10. The management believes that collections in Asirvad will return to normal after the moratorium ends.
11. Around 25-30% of customers are still under moratorium at the end of July.
12. The accrued interest in Q1 was at Rs 492 which is 2.7% of AUM.
13. The management believes that the current provisioning is adequate enough to account for aggressive scenarios.
14. GNPA in Vehicle finance is at 10% and for housing finance, it is at 5%. NNPA for the vehicle & housing finance divisions are at 4% and 3.9% respectively.
15. Gold tonnage for Q1 was down by 4.3%. This is because as gold prices have gone up, people use less gold to borrow the same amount rather than use the same amount of gold to borrow more.
16. Overall demand seems to be down by 25%. Around 10% of branches are operating partially.
17. The company made no disbursements in Asirvad in Q1. It started to lend in MFI in July with disbursements of Rs 70-75 Cr in the month. The company is keeping a cautious stance of lending only to customers who have completed at least one cycle.
18. Around 6-7 lacs of customers have not paid in the past 4 months during the moratorium.

19. The management expects normalcy to come back by the start of Q3.
20. The company is still unable to make any collections in 26,000 of its collection centers out of the 2 lac centers.
21. In vehicle finance, the management expects the collection to be at 85% in July with at least 4-5 months to get normalcy back.
22. The management expects a medium to long term CAGR to stay at 20% for the consolidated portfolio. It expects growth in FY21 to be at 10-12% mainly from the gold book.
23. Gold loan is expected to stay at 78-80% of total AUM at the end of FY21. The unsecured MFI portfolio is not expected to grow more than 1% in FY21.
24. In vehicle finance, the company does not have any customers who are currently under moratorium. This is because of a conscious effort on part of the company to convince customers to pay up the EMIs.
25. Overall moratorium book is at 32.83% of the total book.
26. The major contributor to the reduction in OPEX in Q1 was from a waiver of rent in many cases for the company.
27. The management expects that there is no additional manpower requirement at the gold loan branches. Employee costs are expected to come down to 6% by the end of FY21.
28. The management expects slowness in demand for the gold loan as the major reasons for short term gold loans like the requirement for education during the academic seasons, use in festivals, etc are coming down due to COVID-19.
29. Total disbursement for the MFI industry in June was at Rs 100 Cr.
30. Unlike some of the competition for Asirvad, the company is not looking to add additional loans to existing customers like emergency loans and top-up loans more for adjusting the interest, moratorium interest, and the EMIs.

Analyst's View

Manappuram Finance has long been one of the most consistent players in the NBFC sector in India. The company has cemented its position as one of India's gold loan providers in India by growing its core business consistently. The company's current quarter performance has been decent with >20% YoY overall AUM growth despite QoQ decline in Asirvad AUM. The company has also seen good traction in the online gold loan which growing even faster in current times of COVID-19 disruption and is now accounting for 63% of all loans. This brings a significant opportunity for the company to improve its operating model and reduce manpower and physical costs. The company has stayed cautious with Asirvad and has not disbursed any amount in Q1. It remains to be seen how the company's collections will be affected once the moratorium ends and collection for disbursals in FY21 starts and how will things pan out for Asirvad and the MFI industry. Nonetheless, given the company's resilient customer base and gold loan AUM along with the rising star among MFIs in India Asirvad Microfinance, Manappuram Finance seems like a pivotal finance stock to watch out for.

Piramal Enterprises

Financial Results & Highlights

Brief Company Introduction

Piramal Enterprises Limited (PEL) (including its subsidiaries) is one of India's large diversified companies, with a presence in Healthcare, Healthcare Insights & Analytics business and Financial Services. In Pharmaceuticals, through an end-to-end manufacturing capabilities across its manufacturing facilities and a large global distribution network, the Company sells a portfolio of niche differentiated pharma products and provides an entire pool of pharma services (including in the areas of injectable, HPAPI etc.). In Financial Services, PEL provides comprehensive financing solutions to real estate companies. Healthcare Insights & Analytics business, Decision Resources Group, is a premier provider of healthcare analytics, data & insight products and services to the world's leading pharma, biotech and medical technology companies.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	856	939	-8.84%	1278	-33.02%
PBT	27	-100	-127.00%	-118	-122.88%
PAT	23	-41	-156.10%	-484	-104.75%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3003	3251	-7.63%	3581	-16.14%
PBT	657	744	-11.69%	-1102	-159.62%
PAT	496	448	10.71%	-1703	-129.13%

Detailed Results

1. The company had a rough quarter. Total Revenues for Q1 were lower by 8% YoY and reported a rise in PAT of 11% YoY.
2. The company raised capital of $ 490 million from Carlyle for a 20% stake of Piramal Pharma.
3. Net debt was reduced by Rs 13902 Cr since Q1FY21 and debt to equity has fallen to 1.2 times from 1.9 times last year.
4. Raised long-term borrowings of ~Rs 9,600 Cr. during Q1.
5. The overall loan book in the Financial Services segment was at Rs 51265 Cr vs Rs 56605 Cr last year.
6. Top 10 exposures were reduced by Rs 4000 Cr in the past 1 year.
7. GNPA at 2.5% with provisioning at 5.9% of the total loan book.
8. CAR was at 33% in Q1 vs 23% last year.

9. Net debt to equity for this business was improved to 2.2 times from 3.7 times in last year.
10. Revenue drop in Financial Services was at 6% YoY. This division accounted for 65% of total revenues.
11. The company is focused on building a multi-product retail lending platform with products such as Affordable Housing Loans, Mass Affluent Housing Loans, and Secured Business Loans in FY21. The focus for these products will Tier-II/III locations.
12. Alternative AUM in Q1 was at Rs 11480 Cr.
13. The average yield on loans was at 15.2% while the average cost of borrowings was at 10.8%. NIM was at 6.5% while the cost to income was at 17%. ROA and ROE were at 3.8% and 12% respectively.
14. Pharma revenues fell 11% YoY. This division accounted for 35% of total revenues.
15. The breakup of pharma revenues was:
    1. Pharma CDMO: Rs 614 Cr (95% of Q1FY20)
    2. Complex Generics: Rs 324 Cr (78% of Q1FY20)
    3. India Consumer Healthcare: Rs 104 Cr (96% of Q1FY20)
16. India Consumer Products grew by 28% QoQ to Rs 104 Cr.

Investor Conference Call Highlights

1. All the pharma businesses are getting integrated into a subsidiary of PEL, Piramal Pharma Limited. The business was valued at an enterprise value of $2.775 billion with a potential upsize of up to $360 million, based on FY21 performance.
2. The company now has only 1 account that is greater than 15% of the total exposure.
3. The company conducted a scenario analysis at the onset of the COVID-19 outbreak. The stressed scenario assumed, no sales, no collection, and no construction activity for the first and second quarters of the current year, followed by minimal pickup starting in the third quarter. The outcome showed that 88% of the wholesale real estate portfolio had a >1x times security/ cash cover, under the stressed scenario.
4. In the retail lending space, the company is looking to focus on locations with a population between 10,000 to 4 million. The company has identified these markets to target based on potential and historical risk performance.
5. This business shall have a digital core strategy with physical channels for customer acquisition and collection.
6. As of June'20, the moratorium on the wholesale loan book was at 67% of the AUM and in the retail loan book, 25% was under moratorium.
7. The company has recently acquired a solid oral dosage drug product facility in the US.

8. For the retail lending business, FY21 is widely expected to be a year of foundation building and the management is not expecting much growth in the year.
9. The company is looking to go live with its product offering in retail lending around the Diwali season.
10. Sales in the month of April and May were 10% and 22% of pre-COVID sales while in June sales reached 40% of pre-COVID levels. The maximum sales for the company are actually taking place in affordable and mid-market segments.
11. There was no change in RM in the pharma business and the lower EBITDA was due to adverse product mix. The management does not expect any significant change in RM costs going forward.
12. The company expects revenues to go close to $35-40 million over the next three to four years from the newly acquired US facility.
13. PEL will receive around Rs 3400 Cr from the stake of Rs 3700 Cr to Carlyle. This amount will be used to further reduce debt for the company. These funds will also be used to fund inorganic expansion opportunities in the near future.
14. Collections in June had reached 40% of pre-COVID levels.
15. In the injectables and inhalation anesthesia businesses, sales may have slowed down due to drop in surgeries but underlying is expected to bounce back once normal activity resumes for the sector.
16. In the pharma business, the sales were down 16% YoY in constant currency terms.
17. The management is confident that the company will be compliant with any guidelines issued by RBI for HFCs.
18. The main reason for the company to target tier II & III locations for its retail lending is that the competition in Tier I locations is too high and it is easier to establish itself as a differentiated provider in such markets.
19. Commercial real estate is 8% of total real estate book at Rs 3700 Cr where LAP & LRD are at Rs 1300 Cr and the rest is under construction finance. Most of the construction finance is in office space. The average LTV in LAP & LRD is at less than 65%.
20. Loans to hospitality is at Rs 2000 Cr. The company has lent to top brands in the space like Marriott, Taj Group, and Hyatt.

Analyst's Views

Piramal Enterprises is facing the heat of the challenging economic environment and downturn in the real estate sector. Although the prospects of the pharma business seem good, the financial business is expected to stay muted for FY21. The company is constantly working on improving the liquidity condition of its Balance Sheet and has also managed to raise capital in Q1 both through a stake of 20% in Piramal Pharma and raising debt. The company is doing well to use this downtime to develop its retail lending platform and target underserved geographical and population segments. It remains to be seen how long will this slow period for financial services lasts for the company and what challenges will it face in establishing its retail lending platform. However, given their past track record, management capability, and surplus unallocated capital which can be deployed to support any of the conglomerate's various businesses, Piramal Enterprises continues to be a good conglomerate stock to watch out, particularly in the real-estate lending space.

NETWORK & COMMUNICATIONS

Sterlite Technologies

Financial Results & Highlights

STL, Sterlite Technologies Limited (Formerly Sterlite Tech) is a digital technology multinational company having offices in India, China, US, SEA, Europe and MEA. It is listed on Bombay Stock Exchange and National Stock Exchange of India. It has more than 270 patents and serving customers in over 150 countries, including Fortune 100.

The company is specialized in optical fibre and cables, hyper-scale network design, and deployment and network software and offer bespoke integrated solutions for global data networks of CSPs, Telcos and OTTs. STL has also partnered with global telecom companies, cloud companies, citizen networks and large enterprises to design, build and manage such cloud-native software-defined network. It has strong global presence with next-gen optical preform, fibre and cable manufacturing facilities in India, Italy, China and Brazil and two software-development centres.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	753	1354	-44.39%	1049	-28.22%
PBT	33	209	-84.21%	83	-60.24%
PAT	24	138	-82.61%	71	-66.20%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	886	1441	-38.51%	1170	-24.27%
PBT	7	218	-96.79%	90	-92.22%
PAT	3	144	-97.92%	77	-96.10%

Detailed Results:

1. The quarter saw a severe revenue decline of 38% YoY in consolidated terms.
2. Consolidated net profit declined by 98% YoY for the quarter.
3. The current order book stands at Rs 10312 Cr. The proportion of new product to revenue stood at 20%.
4. Exports accounted for 51% of revenues in Q1FY21.
5. Plant production is back to pre-COVID levels all across the world.
6. The company has announced Vision 2023 wherein the next 3 years it plans to:
    1. double the revenue to Rs. 10,000 crore
    2. reduce the net debt to equity by half to 0.5
    3. deliver a Return on Capital Employed (RoCE) above 20%
7. The client base breakup is as follows:
    1. Telcos: 62%

   2. Enterprises: 15%
   3. Citizen Networks: 19%
   4. Cloud Players: 4%
8. The completion of various data network projects for the company are as follows:
   1. Network Modernisation for Indian Navy: 81%
   2. MAHANET: 82%
   3. T-Fibre for Telangana: 5%
   4. FTTH rollout for a large Indian Telco: 2%
9. The company expects fiber demand to rise form 2021 onwards and 5G deployment cycle to last around 8-10 years.
10. The order book spread across customer segments is as follows:
    1. Telcos: 38%
    2. Citizen networks: 41%
    3. Enterprises: 20%
    4. Cloud: 1%
11. The company is looking to complete the open market buyback program by Q2.

Investor Conference Call Highlights:

1. There is a high degree of urgency to build new networks as 2020 has triggered a race for creating these digital infrastructure investments.
2. These digital networks that are getting created need to reach everyone at scale and quality. In terms of scale, these networks need to have many more digital lanes to handle 4 to 5x Internet traffic.
3. These new networks will be built at the edge with a large capacity closer to the consumer. These networks are going to be a combination of both seamless wired as well as a wireless combination.
4. These new-generation digital networks require an integrator, requires a network and a system integrator, who possesses the capability to integrate all these new technologies, which Sterlite is capable of today.
5. The company is focusing on increasing the overall opportunity funnel and win ratio in the top 20 key accounts across the globe.
6. Overall global demand for Optical fiber is expected to grow 6% in H2.
7. Amongst notable order wins that in Q1, Sterlite won a multiyear contract for the Opticonn Solution from a leading Middle East telecom player. It also got additional orders for fiber rollout towards strengthening the MahaNet projects. The company is continuing to get orders for FTTx MANTRA for a large Southeast Asian telco.
8. The order book spread for the rest of FY21 is around Rs 3200 Cr. This is the minimum number the company is expecting to deliver this year. The company doesn't expect any delays on these orders and on the other hand sees urgency from customers for expedited deliveries of their orders.
9. Overall demand is increasing despite good supply from China because many players looking to reduce dependence on Chinese products. Also, the demand shift is happening towards value-added products and end-to-end solutions.
10. The management has stated that despite the slowdown in the industry, the decline in Sterlite has not been as severe as the rest of the industry as the company started end-to-end solutions where fiber forms a very small part of the overall value bucket.

11. The management has clarified that there is no tie-up between Sterlite, Reliance and Tech Mahindra for the development of the 5G ecosystem based on Open RAN technology. It is just that Tech Mahindra specializes in the software portion of Open RAN technology while Sterlite specializes in both hardware and software for this technology.
12. The company is not worried about any dumping of Chinese products as preferential market access opportunity for Indian companies restricts Chinese companies from competing at the same level as players like Sterlite.
13. The management has stated that the main reason for the decline in business in Q1 was the loss of operations of about 1 month in services and 2 months in manufacturing for the company across all locations. Demand remains intact and thus the company should see sales recover in H2.
14. The company is still reviewing whether it wants to get into the BSNL 4G tender and in what capacity.
15. According to capacity expansion, the company is aiming for a 10% market share globally.
16. The company is not making any geographically based strategies and is instead focussed on servicing its 20 biggest customers regardless of location.
17. The management expects margins to remain in the range of 18-20% going forward. The margins in Q1 were impacted severely due to loss of revenues which resulted in the margin falling to 15%.
18. The FTTH rollout for the Indian Telco which is at 2% currently has a size of Rs 1000 Cr and the majority of it is expected to be completed in FY21.
19. Capacity utilization for fiber was at 48% of the expanded capacity and for cable, it was at 70% in Q1.
20. The management expects R&D expenses to remain at 2% of revenues at more than Rs 100 Cr each year.
21. For R&D investments, the company is not looking for an IRR immediately. It is instead looking at ROI 2-3 years down the line. In the case of inorganic investments, the company has a strict requirement of IRR at >20% to maintain ROCE at >20%.
22. The management has also stated that it has interacted with CXOs of more global telcos and cloud companies than it has done in the last 5 years.
23. The company is currently looking at a Total Addressable Market of $30 billion which expects to grow to $75 billion by 2023.

Analyst's View:

Sterlite Technologies saw a big revenue and profit decline in the current quarter. The company has had a dismal quarter mainly due to loss of operations in both services and product businesses during the lockdown period. The management expects the recovery to be steady in H2. The way forward for the communications industry seems to have been pushed towards data much faster due to COVID-19. As remote working and cloud infrastructure becomes more and more relevant, the demand for an end to end network solutions providers like Sterlite is also expected to rise. The company is making good investments and partnerships in the industry to enhance its capabilities and take advantage of the upcoming demand wave for stronger networks and more and more data centers. There is a massive opportunity in the cards for the company from the development of the 5G ecosystem announced by Reliance based on Open RAN technology where Sterlite is one of the frontrunners in India. It remains to be seen how the uncertainty around COVID-19 unravels and how fast will the company be able to adapt and take advantage of the post COVID world. Nonetheless, given the company's capabilities in providing integrated and tailored network solutions, its expanded production capacity, and long-running order, Sterlite Technologies looks like a pivotal stock to watch out for in the communications technology space.

OTHERS

CRISIL

Financial Results & Highlights

Brief Company Introduction

CRISIL (formerly Credit Rating Information Services of India Limited) is a global analytical company providing ratings, research, and risk and policy advisory services. CRISIL's majority shareholder is Standard & Poor's, a division of McGraw Hill Financial and provider of financial market intelligence.

Standalone Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	230	224	2.68%	243	-5.35%	473	448	5.58%
PBT	43	31	38.71%	57	-24.56%	100	71	40.85%
PAT	32	22	45.45%	45	-28.89%	76	49	55.10%
Consolidated Financials (In Crs)								
	Jun-FY21	Jun-FY20	YoY %	Mar-FY21	QoQ %	6MFY21	6MFY20	YoY%
Sales	484	428	13.08%	458	5.68%	942	851	10.69%
PBT	93	99	-6.06%	117	-20.51%	210	212	-0.94%
PAT	66	67	-1.49%	88	-25.00%	154	143	7.69%

Detailed Results:

1. The current quarter was encouraging for the company with revenues rising by 13% and profits staying flat YoY respectively.
2. Excluding Greenwich Associates, revenues have risen 2.2% YoY while profits have risen 28.5% YoY.
3. In the 6MFY21, the revenues have risen 11% YoY while profits have risen 7.7% YoY.
4. The board of directors has declared a second interim dividend of Rs 6 per share.
5. The rating business grew 10.1% YoY due to new client additions and higher issuance. Global Analytical Center (GAC) saw an increase in support coverage for S&P Global Ratings and increased participation in data transformation initiatives.
6. The research business grew 17.5% in revenues due to robust growth in Global Research & Analytics business and contribution from Greenwich. Model & risk offerings saw new deal wins.
7. Excluding Greenwich, the research division would have seen revenues decline 1.1% while profits would have been up 29.8% YoY.
8. The advisory business saw good wins but overall performance was affected by the delays in the closure of contracts in the quarter. Most of these delays were caused by disruption from the COVID-19. Revenues in this division fell 4.2% YoY.
9. The company also saw forex gains of Rs 3.6 Cr in the June quarter.

Analyst's View:

CRISIL has been a trusted financial service and information provider for a long time. They have established themselves as a reputed name in their operational fields of ratings, research, and advisory. The company saw a good response to the rating business while the research business grew steadily with the addition of Greenwich Associates to the company's umbrella. The advisory business suffered a lot due to delays in contract closures from COVID-19. The company has guided that the oncoming period will be tough for both the Indian and World economy. It remains to be seen what second-order effects the COVID-19 situation will have on the company's performance going forward. Nonetheless, given the company's industry position and its financial resilience, CRISIL remains a pivotal stock in the rating sphere. The valuation multiple of the company continues to be near the lowest level in the last ten years which makes it an attractive potential investment for the long term.

Mayur Uniquoters

Financial Results & Highlights

Brief Introduction:

Mayur Uniquoters is the largest manufacturer of artificial leather/ PVC vinyl, using the 'Release Paper Transfer Coating Technology' in India.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	44	132	-66.67%	145	-69.66%
PBT	1	24	-95.83%	35	-97.14%
PAT	1	16	-95.00%	27	-97.04%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	44	131	-66.41%	137	-67.88%
PBT	0	17	-98.65%	33	-99.30%
PAT	0	10	-99.10%	25	-99.64%

Detailed Results:

1. The company had a dismal quarter with consolidated revenues and PBT growing 66% and 99% respectively YoY.
2. Standalone revenues and profits were almost the same as consolidated profits indicating that other subsidiaries of the company were not in the loss in Q1.

Investor Conference Call Highlights

1. The company's supply to the Mercedes plant in South Africa is expected to start from Q4FY21.
2. The product approval of BMW is still going on.
3. The sales for the quarter were down mainly due to production loss in the month of April and some days in May.
4. More than 50% of the business is coming from the auto industry.
5. Q2 is expected to be much better than Q1.
6. All the supplies are to be made to new models that will be released in the future.
7. The company is also expecting a deal from Volkswagon in the next few months.
8. There is good import substitution in the PU space as 90% of domestic requirements are imported. Currently, the demand for the company's PU is low as most makers have stocked up on imported

PU before the lockdown. The company expects new orders to come in a few months once these stocks deplete.

9. The management has stated that the rest of the year will be spent in getting back on track both for the economy and the auto and the artificial leather industry.
10. Capacity utilization is expected to come up to 60% in Q2. It was at around 27% of last year's levels in Q1.
11. Most of the drop in other expenses is due to a drop in discretionary expenses like travel, etc. There shouldn't much increase in these costs in Q2 as normalcy is expected to come back slowly.
12. The management stresses that the current times are going to weed out weak players and will make existing players more resilient.
13. The company has made sales of less than Rs 50 lacs in PU for Q1.
14. Auto OEM exports for Q1 were low mainly due to no exports during April and May.
15. Total volumes sold in Q1 were at 15.162 lac meters.
16. Volkswagen India is expected to bring in sales of 30,000 meters per month with Rs 12-15 Cr per year.
17. The value of the export sales is expected to be around 15% higher as compared to domestic sales.
18. The company is now supplying MG in the recent entrants in the auto industry.
19. The management maintains that the company remains competitive enough to compete for orders anywhere in the world.
20. Most of the plant operations were in 2 weeks of May and in June. Thus the company has only accounted for depreciation for the period when operations were open.

Analyst's View:

Mayur Uniquoters has been one of the biggest artificial leather makers in the world. But the company has been through a rough patch in the past few years with stagnant revenues and decline of the unorganized footwear segment which was a big revenue generator for the company. The company is making good inroads into the auto-export segment. Q1 performance for Mayur was dismal mainly on the back of the production shutdown during the lockdown. The management remains confident of the product's technical and quality edge but has stated that it may take the rest of FY21 for the company and its customer segments to come back to normalcy. It remains to be seen how long the current slow auto environment continues and how long will it take for the management vision to materialize. Nonetheless, given its dominant market position both in the domestic and export segments and the management's focus on not compromising on quality no matter what, Mayur Uniquoters remains a good small-cap stock to watch out for.

TECHNOLOGY

Tata Elxsi

Financial Results & Highlights

Introduction

Tata Elxsi provides product design and engineering services to the consumer electronics, communications & transportation industries and systems integration and support services for enterprise customers. It also provides digital content creation for media and entertainment industry.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	414	374	10.70%	452	-8.41%
PBT	94	70	34.29%	110	-14.55%
PAT	69	49	40.82%	82	-15.85%

Detailed Results:

1. The company saw revenues rise 10.7% YoY in Q1.
2. The PAT for the company rose 41% YoY in Q1.
3. The company gained Rs 4.55 Cr from foreign exchange gains.
4. EPD division grew 13.2% YoY.
5. Media & Communications vertical grew 3.3% QoQ & 23.3% YoY.
6. Healthcare division grew 5.3% QoQ & 26.5% YoY.
7. Revenue distribution by geography is as follows:
    - EU: 35.8%
    - USA: 36%
    - India: 13.1%
    - Rest of the World: 15.1%
8. The top 10 customers now account for 48.6% of the total sales.
9. Transportation vertical earnings remain under pressure due to muted sales from the auto industry worldwide.

Investor Conference Call highlights:

1. The management has stated that additional expenses are still high since a number of the company's employees are stuck in overseas locations.
2. The company will not be making any new hires or office expansions in FY21.
3. The management has guided that discretionary expenses like travel should stay low going forward as the industry and company adjust and adapts to the new normal of remote working.
4. The auto sector demand is expected to stay muted. Although the company is winning large deals in this space, most of these are getting pushed back by a quarter or so.
5. The company is looking at the Middle East as the new frontier for deals in the media and broadcasting segment.
6. The utilization rate in QA1 was at 75%.
7. The company has not moved forward with its plans for acquisition but it remains on the lookout for any potential opportunities.
8. The management has assured that the company will continue to derisk and remove dependence on a single customer and the transportation vertical.
9. The company has not undertaken any salary hikes and will not do so for the rest of the year.
10. The management has stated that in the long run, the company will rethink overall infrastructure requirements and office space requirements which will lead to further cost savings.
11. The company had 2 deal wins in Q1, one in the transportation sector and the other in the medical sector.
12. In the long term, the management envisions revenue distributions as 40% from the transportation sector, 40% from media and communications & 20% from medical devices space.
13. The company indeed has some platforms under development for remote management of assets in the studio and telecom industry. These platforms are seeing good traction and interest due to COVID-19.
14. The company has gone forward with the model of more offshoring due to reduced budgets of its existing customers due to COVID-19. The company is also looking to enhance security measures when working from home as much as possible and are evaluating best-in-class security architectures available for data security at homes.
15. The management has stated that as long as the customer is satisfied that the company can work remotely, it may take up offshoring all the way up to 100%.
16. The company has around Rs 250 Cr of reserves and it will not be distributing this through dividends as it needs these funds to finance any possible acquisitions in the near future.
17. The management maintains PBT guidance of 22-24% and states that there may be further improvement in margins due to a big reduction of travel expenses.

18. Overall revenues in USD is $55 million in Q1.
19. The management expects a 5-10% growth in the transportation vertical. The transport adjacent verticals account for 4-5% of revenues and the management expects it to become 15-20% of revenues in the next 3 years.
20. The company is building T-Play, which is a new platform that enables the rapid launch of new OTT services. All in all, the company has filed 8-9 patents in the last 1-2 years.
21. The management has stated that the company can reach 70% offshore by the end of FY21.

Analyst Views:

The company had a good quarter with stable revenue growth and robust PBT growth. The company continues to see good growth in the emerging medical space and the media & communications space. It has also managed to improve its offshore ratio and keep travel expenses minimal which has helped boost PBT growth. The auto segment continues to be subdued due to the COVID-19 situation. It remains to be seen how the company's major clients cope with the disruption caused by the pandemic and what impact it shall have on the company's performance going forward. Nonetheless, given the company's strong technological capabilities and its resilient performance in the last year, Tata Elxsi remains a good technology stock to watch out for, particularly given the rising demand for its services in the broadband and media & communications spaces.

TRAVEL & HOSPITALITY

MHRIL

Financial Results & Highlights

Brief Company Introduction

Club Mahindra Holidays is an Indian travel company founded in 1996. It is a part of the Mahindra Group and provides holidays on a timeshare basis. Mahindra Holiday & Resorts India Limited (MHRIL) is a part of the Leisure and Hospitality sector of the Mahindra Group. Vacation ownership is its key offering and "Club Mahindra" is its flagship brand. MHRIL offers family holidays primarily through vacation ownership memberships for over a period of 25/10 years. Today The boast a fast growing customer base of over 235,000 members and 50+ resorts at some of the most exotic locations in both India and abroad.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	196	265	-26.04%	256	-23.44%
PBT	36	29	24.14%	29	24.14%
PAT	27	18	50.00%	-169*	-115.98%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	325	626	-48.08%	631	-48.49%
PBT	-35	10	-450.00%	41	-185.37%
PAT	-32	8	-500.00%	-161*	80.12%

*Includes a onetime impact on taxes of Rs 199.7 Cr

Detailed Results

1. The quarter was dismal for the company with a fall in consolidated revenues of 48% YoY and negative PBT of Rs 35 Cr.
2. Deferred revenue pool was at Rs 5430 Cr.
3. Strong cash position at Rs 776 Cr and receivables were at Rs 1636 Cr.
4. Occupancy was at 0% for Q1. As of 31st July 2020, 20 resorts are operational.
5. The member base was at 258,528 with net additions of 1270 in Q1.
6. One-off overdue cancellation of 820 members was done in this quarter.
7. The company saw consumer preference shift towards Gozest which is the 3-year membership due to its lower transaction value.

8. The company reduced overall costs by 37% YoY with a major reduction of 57% and 55% in Sales & Marketing and Other Expenses respectively.
9. The company partnered with Bureau Veritas, a global leader in Testing, Inspection, and Certification of 'CovidSafe' protocols.
10. In HCRO, 30 out of the 33 resorts are operational.
11. The company saw 90%+ in key resorts from mid-June. The company expects significant growth in performance in Q2.
12. Revenues for HCRo were down 66% YoY. The company saw a cost reduction of 53% YoY. Overall loss after tax for the unit was at 4.78 million euros.
13. The company also had a forex loss of Rs 8.6 Cr in Q1.
14. Consolidated EBITDA margin improved 67 bps YoY to 15.3% in Q1.

Investors conference call Highlights

1. 19 out of the company's resorts are already certified COVID Safe from Bureau Veritas.
2. The company has moved on to a 100% virtual sales mechanism.
3. Despite no resort income in Q1 at Mahindra Holidays, the company delivered profit before tax growth of 27.3% YoY.
4. HCRO was EBITDA positive in June.
5. The company saw occupancies of 35-40% in Rajasthan in July.
6. The company's capex plans to reach 5000 units by FY24 remains on track.
7. The management has stated that the company will continue to follow the partly owned partly leased model to maintain enough room inventory to service the growing member base and will look to invest in distressed assets if the opportunity arises.
8. The current ratio of owned to leased is at 60:40.
9. The management's primary aim is to maintain cumulative member base growth of 8-9% per year.
10. The management believes that once member growth comes to 20,000, resort income will also start to contribute significantly.
11. The dominant product sold in Q1 was the 3-year membership Gozest.
12. The management insists that the customer acquisition costs for Gozest is significantly lower than that for the flagship 25-year product. This is mainly because the company is doing simple low-cost digital campaigns only for the 3-year product on its existing database which has a significant number leads.
13. The management has stated that the customer does not need to worry about any lost holidays in the current period as the company allows for holiday accumulation for up to 3 years.

14. Almost 7 of the company's resorts are now running on solar power.
15. The management is confident that some of the cost savings in Q1 are sustainable and can persist in the long term.
16. The net impact on deferred revenue from the cancellations in Q1 was at Rs 100 Cr.
17. The company's primary aim for the Gozest product is to use this as an entry-level product and convert these customers into 25-year members. This is the way short term products are utilized across the industry.
18. The 820 cancellations done in Q1 was done by the company itself and is one time only. This was done as the company felt that it couldn't collect from these members due to COVID-19 so it took the step to directly cancel these memberships.
19. The company is adding 150 rooms in a Goa project while 57 rooms are to be added to another project in Goa. Another project for 33 rooms is going on in Ashtamundi. The company is also looking to add 150 rooms to Ganpatipule in phases and 160 units to an existing lot in Kandaghat, Shimla.

Analyst's View

MHRIL is the leading vacation ownership company in India. It has a unique business model where the company funds its Capex from customer's advance money. Because of this model, they are in a much better position against other hotels in terms of Balance Sheet strength. The cash of around 776 Cr on the books gives them the comfort to tide the storm of COVID. The company is looking to use this cash to buy out good properties at distressed valuations in the current COVID pandemic. The company is also doing well to expand on its short term offering of Gozest which can be used to convert to 25-year memberships in the future. Moreover, HCRO is doing much better with a swift come back to normalcy in June. Even though travel and tourism is a sector which seems to take a long time to recover and come back to normalcy, MHRIL has the firepower (read Balance Sheet strength) to make some interesting moves. It remains to be seen how long will it take for sentiments to normalize in the travel sector and whether the company will be able to capitalize on its resilient balance sheet and cash reserves to make any aggressive moves. Nonetheless, given the company's resilient model and the current valuation being close to its replacement cost, MHRIL can turn out to be a pivotal travel sector in the times ahead.

Thomas Cook India

Financial Results & Highlights

Brief Company Introduction

Thomas Cook India is one of India's oldest companies which was established in 1881. It is an integrated travel and travel related financial services company. They provide a wide range of services from packaged tours and forex services to visa support and travel insurance. Thomas Cook has been credited with a number of innovations in the travel industry, which include the world's first packaged tour, first prepaid hotel, first holiday brochure and even the conceptualization of the first traveller's cheques.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	75	949	-92.10%	251	-70.12%
PBT	-3	55	-105.45%	-59*	-94.92%
PAT	-3	55	-105.45%	-84	-96.43%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	131	2335	-94.39%	1109	-88.19%
PBT	-136	40	-440.00%	120*	-213.33%
PAT	-109	15	-826.67%	-16	581.25%

*Contains an exceptional item of Rs (25) Cr on account of stamp duty payable pursuant to the Composite Scheme of Arrangement and Amalgamation.

Detailed Results:

1. Consolidated revenues fell 94% YoY while other income rose to Rs 46 Cr from Rs 18 Cr last year.
2. Total cash and bank deposits were maintained at Rs 917.7 Cr on 30th June 2020. Total Cash & cash equivalents were at Rs 936.1 Cr
3. The company is targeting cost savings of Rs 562.7 Cr in FY21 representing a cost savings of 41% YoY.
4. Fixed cost savings were at 47% YoY and 49% YoY at consolidated and standalone levels.
5. TCIL signed an agreement to take over Dnata Travel's extensive Corporate Travel portfolio of 130 corporate houses in India on July 16, consolidating its leadership position in the space. This is expected to add 20% to the corporate travel revenues for the company.
6. TCIL has partnered with ICMR accredited medical centres pan India, becoming the first travel service providers to offer seamless, end-to-end COVID-negative certification services. These services include:
    1. Assistance on requirements/procedures for COVID testing via ICMR accredited centres
    2. Information on multiple locations/options available for the test
    3. Scheduling appointment for the test pan India

    4. Making payment to the medical centre on behalf of the customer
    5. Coordination between customer and medical centre for end-to-end process
    6. Test report sent on email
7. Total Costs savings for the company was at 50% YoY.
8. COVID-19 has hit the industry hard and the company is expecting FY21 to be significantly lower than FY20. The recovery in the business segment in FY21 over FY20 is as follows:
    1. B2B Travel: 28% of FY20 levels
    2. B2C Travel: 35% of FY20 levels
    3. Forex: 60% of FY20 levels
    4. DMS+DEI: 30% of FY20 levels
9. Forex services saw a business recovery of 29%. 86% of branches are now operational.
10. The company reopened 175 retail travel outlets across 78 cities.
11. The corporate travel segment saw revenue recovery of 12%.
12. DEI saw services resuming in 10 out of its 16 countries.
13. The segment performance in Q1FY21 is as follows:
    1. Financial Services: Down 71% YoY
    2. Travel & Related Services: Down 98% YoY
    3. VO & Resorts: Down 77% YoY
    4. Digiphoto: Down 93% YoY
14. Sterling saw reopening of 6 resorts as of June 2020 and 44 net member additions in Q1.
15. Resort occupancy was at 24%. Total income was at Rs 23 Cr vs 79 Cr last year.

Analyst's View:

Thomas Cook is the biggest travel company in India in terms of reach. They have been innovators in the sector for more than a century now. The company is going through the toughest of times with the travel industry being hit hard due to COVID-19. The management is doing well to use this period of slow operations to focus internally and improve the cost structure and operations of the company while seeking to reimagine how the industry will be changed from the ongoing pandemic. The company has taken encouraging actions like engaging in the COVID negative end-to-end services and the acquisition of Dnata's corporate travel portfolio of 130 corporate houses in India. It remains to be seen how long it will take for things to normalize for the travel industry and how consumer behaviour will evolve from COVID-19. Nonetheless, given the company's resilient balance sheet and the management focus on improving the internals of the company and to focus on new avenues for the industry, Thomas Cook seems to be a resilient travel industry stock in an industry plagued with shutdowns and bankruptcies these days.