Q2FY21 Results & Conference Call Highlights of 58 Stocks

Made by Karan Patel

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	570	549	3.83%	491	16.09%	1061	1102	-3.72%
PBT	463	428	8.18%	380	21.84%	843	857	-1.63%
PAT	338	368	-8.15%	302	11.92%	640	660	-3.03%

Detailed Results

1. Revenues for the quarter were up 4% YoY at Rs 570 Cr.
2. PBT in Q2 is up 8% YoY and PAT is down 8% YoY.
3. QAAUM for the company was at Rs 3755 billion which was flat YoY. Closing AUM was down 3% YoY at Rs 3544 Cr. Market share in both was at 13.6% and 13.2% respectively.
4. The breakup of closing AUM for HDFC by segment is as follows:
    1. Equity: 40.5% vs industry average of 38.39%
    2. Debt: 35.4% vs industry average of 34.3%
    3. Liquid: 21.9% vs industry average of 16%
    4. Others: 2.2% vs industry average of 10.7%
5. Market share in Actively Managed Equity Oriented AUM for HDFC is 14.1%. Actively managed QAAUM saw a fall of 11% YoY while Closing AUM fell 14% YoY.
6. Market share in Debt QAAUM was at 13.4% and QAAUM & Closing AUM have risen 15% and 19% YoY respectively.
7. Market share in liquid funds was at 18.7% by QAAUM which was down 4% YoY. Closing AUM for liquid funds was down 13% YoY.
8. The number of individual accounts fell 2% YoY while individual MAAUM fell 6% YoY.

9. The company also maintained a long tenure SIP book with 83% of order book having flows over 5 years and 71% having flows over 10 years.
10. The distribution of total AUM across different channels saw the following changes:
    1. Direct: 47.4% vs 42.5% a year ago
    2. HDFC Bank: 5.4% vs 7.2% a year ago
    3. Banks: 10% vs 13% a year ago
    4. MFDs: 24.8% vs 27.3% a year ago
    5. National Distributors: 17.8% vs 17.3% a year ago.
11. 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 223 branches with 145 in B30 cities and 65,000+ empanelled distribution partners. The company now has customers in 98% of pin codes in India
12. The company expects to see 87% of transactions in FY21 by electronic means as compared to 69% in FY20.

Investor Conference Call Highlights

1. The gain from MTM from the Essel exposure has been 5.7-5.8% net of tax.
2. The management admits that the fall in market share in actively managed equity space has been partly due to the fund's performance but it still has enough gap with the 2nd player to sustain and gain back the lost market share in the future.
3. The market share in debt has remained stable despite the redemptions in credit funds in Q1.
4. The market share in liquid funds has dipped as more and more alternatives have popped up but the company still holds a lead of more than Rs 15000 Cr over its nearest competitor which is a very dominant position in the market.
5. The management remains confident that the investment performance in the equity will bounce back and the company will regain lost market share in the medium term.
6. The company is also working on and looking to launch new products including thematic products and will fill existing product gaps. This is also expected to help gain lost market share and capture even more shares than before.
7. The sequential improvement in expenses is mainly due to the renegotiation of rent costs.
8. The total run rate of monthly SIPs in the industry has come down marginally even though more and more new SIPs are opened as existing SIPs are getting reduced due to the high volatility in markets. The management expects this to be temporary.
9. Equity yields have remained stable while debt yields have gone down due to a smaller share of credit risk funds which yielded higher management fees.
10. The management admits that there will certainly be a period of risk aversion to equities due to the overhang of the pandemic and it will difficult to predict how long this will last.

11. The company is looking to offer increased commission payouts for certain selected products as a festival kind of a promotion campaign. It will also be giving out higher commissions for its new launch products when they come out to engage the distributor fraternity and endorse its brand and new product range.
12. The company is looking to bring in 1-2 more fund managers and has not settled on any quantum on how much these new managers will be managing when they join up. It will be making allocations based on the approach and market cap category and other factors.
13. One of the new products which are expected to fill the gap is a dedicated dividend fund which will have companies that have high dividend yield.
14. The management believes that there is still a lot of untapped potential in equity as an investment class and it will take at least 10-15 years for every household to have equity exposure through a mandated retirement plan like 401K in the USA or any other govt program.
15. The company has been slow in launching ETFs as most of the money in ETFs is in index ETFs and the majority of the money is coming from sources like EPFO which have a mandate to invest only in government-owned asset management companies.
16. The largest challenge for the industry still remains customer reach in terms of total population size and distributors are instrumental in connecting this gap. And the financials of an ETF make it almost impossible for distributors to have much incentive to sell them to customers.
17. The company is indeed open to making thematic ETFs based on indexes representing those themes but this is still far away.
18. The management has admitted that hybrid funds are losing connect with investors and it is becoming more preferable for investors to divide allocation to separate equity and debt funds rather than go for a single hybrid fund.
19. The key lead indicator for investors' interest in the equities for the management is absolute returns for the industry as compared to benchmark bank interest rates. As long as equity funds deliver superior performance to bank interest rates, people will be looking to invest in equities and equity MFs.
20. A major purpose of the branches for HDFC AMC is to service distributors in the region which is not possible through any outsourced means.

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 in Equity AUM and a falling share of credit risk funds in the debt category. 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 company is looking to launch new products in the near future which will help address current gaps in the addressable market and expand into the thematic equity investment space. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	302	307	-1.63%	314	-3.82%	617	650	-5.08%
PBT	186	157	18.47%	192	-3.13%	378	335	12.84%
PAT	141	134	5.22%	150	-6.00%	290	257	12.84%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	322	323	-0.31%	336	-4.17%	659	683	-3.51%
PBT	191	158	20.89%	200	-4.50%	391	339	15.34%
PAT	145	137	5.84%	156	-7.05%	301	262	14.89%

Detailed Results:

1. Revenues were flat YoY in Q2. Profits rose for the company with Q2 PAT rising 6% YoY.
2. As of 30th Sep 2020, AUM was at Rs 2.77 trillion.
3. Mutual Fund AUM was at Rs 1,929 billion
4. Total Operating expenses were down 20% YoY in Q2. Employee costs fell by 21% YoY.
5. NIMF added over 151,600 folios in Q2. NIMF has 6.2 million Unique Investors which represents 29% of the MF industry market share.
6. Digital transactions now account for 48% of all transactions.
7. The company saw 3.12 lac SIP registrations in Q2.
8. Equity assets grew to 39% of total AUM. Retail Assets were at Rs 520 bn which 26% of total AUM vs an industry average of 20%.
9. Fixed income (Debt + Liquid) assets have grown 12% YoY and account for 47% of total AUM.
10. Successfully launched Nippon India Multi-Asset Fund, Nippon India ETF Nifty IT & Nippon India Nifty Smallcap 250 Index Fund in Q2.
11. The company enjoyed a market share of 13% in ETF space with an AUM of Rs 286 bn. It also has a volume share of 70% and 33% share of folios in the ETF space.
12. B30 assets accounted for 18.2% of overall MF AUM vs industry average of 16.1%.
13. Tenure of SIP book was > 5 years for 84% and >10 years for 79% of the SIP book.

14. The overall distribution mix was 53% direct and 47% distributed assets. In distributed assets, Banks were at 26%, National Distributors were at 20% and IFAs were at 54%.
15. Individual AUM was at Rs 753 billion which accounted for 79% of distributed assets which is 47% of total MF AUM.
16. The offshore business has AUM of Rs 93 bn.
17. NIAIF has raised commitments of Rs 34 bn as of Sep '20.

Investor Conference Call Details:

1. NAM India received a mandate to manage Post Office Life Insurance and rural post office insurance funds.
2. Nippon India Digital Innovation Fund has committed funds in excess of USD 100 billion and has initiated investment activities.
3. The company added over 400 IFAs in this quarter to take the IFA base to over 77,000.
4. The fall in yields is mainly from the change in the mix in the fixed income category and the decline of the credit risk & long duration segments which were big margin generators.
5. The company has seen both additions of fund managers & realignment of portfolios, which have been implemented with the feedback of Nippon Life on the risk management side from Japan.
6. The company has started issuing ESOPs as variable pay and this has led to a fall in employee costs.
7. The management admits that there is a slowdown in equity flows in the industry currently.
8. The management remains confident of attracting investors with the launch of the new products in the year so far.
9. The post office mandate is expected to add Rs 50,000-60,000 Cr to the company's AUM. Out of this, around 10% is in equity schemes and 90% is in debt.
10. On the international mandates, the company expects to see a drawdown of $100 million from the Indo-Japanese Tech Fund in the AIF segment in the next 2-3 years.
11. Realization in debt has fallen from 22 bps in Q1 to 20.5 bps in Q2.
12. The rise in other income in Q2 was mainly due to the reversal of the company's investment in its own equity and ETF schemes which yielded losses in Q4FY20.
13. The share of equity in total AUM has risen due to the rise in markets in Q2.
14. The company has almost 40% market share ex of EPFO money in the ETF space. It has 19 products spread across equity, both domestic and foreign, sectoral, and also fixed-income in the ETF segment currently.
15. The company is looking to launch more ETFs in Q3. It has already got SEBI approval for certain more ETFs.
16. The company sees opportunities in asset management arising from strategic partnerships in the financial industry.
17. The management stresses that execution is going to be the key for the company to enhance its market share and add newer investors.
18. The company is not looking to push to capture temporary market share by paying extra incentives. It is looking to provide a complete package of products, uniqueness of product, performance, and execution capability.
19. The management has stated that investors in India are warming up to ETFs especially family offices. A major factor behind the growing preference for ETFs over regular MFs is the liquidity and the absence of the exit load.

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 Q2FY21 as well as the launch of new products like Nippon India Multi-Asset Fund, Nippon India ETF Nifty IT & Nippon India Nifty Smallcap 250 Index Fund. The company continues to have a good hold in the IFA space with this channel being the largest distribution channel for the company. It is also looking to capitalize on its expertise on ETFs and will continue to launch ETF products and bring in new investors to this space. It has also done well to win the post office mandate which cements its credentials as an institutional asset manager. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	7442	8101	-8.13%	3417	117.79%	10859	16298	-33.37%
PBT	1485	1609	-7.71%	682	117.74%	2167	3188	-32.03%
PAT	1138	1402	-18.83%	528	115.53%	1666	2528	-34.10%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	7441	8101	-8.15%	3417	117.76%	10859	16194	-32.94%
PBT	1541	1730	-10.92%	549	180.69%	2090	3195	-34.59%
PAT	1194	1523	-21.60%	396	201.52%	1589	2538	-37.39%

Detailed Results:

- The revenues for the quarter were encouraging with a decline of only 8% YoY and an improvement of more than 100% QoQ in both standalone and consolidated terms for Q2.
- Profits were also down with a fall in PAT of 19% and 21.6% YoY respectively in standalone and consolidated terms respectively.
- The volumes sold for the quarter stood at 1,053,337 units which is a decline of 10% YoY.
- The export volumes were at 479,751 units in Q2.
- Operating EBITDA margin was at 18.2% & excluding MEIS impact it was at 19%.
- The YoY changes in volumes for the quarter & H1 are as follows:
  - Domestic:

Domestic	Q2FY21	H1FY21
Motorcycles	6%	-35%
CV	-78%	-85%
Total	-9%	-42%

- Exports:

Exports	Q2FY21	H1FY21
Motorcycles	-11%	-33%
CV	-20%	-35%
Total	-12%	-33%

- Total:

Total	Q2FY21	H1FY21
Motorcycles	-2%	-34%
CV	-53%	-63%
Total	-10%	-38%

- The domestic motorcycles industry grew 7% YoY in Q1 vs Bajaj decline of 70%.
- The overall share in the domestic motorcycle market grew close to 18.2% in H1FY21 from 18.1% last year.
- KTM and Husqvarna had their highest ever sales in a quarter of 20,200 vehicles.
- Pulsar had its highest sales volumes ever in a quarter at 348,561 units.
- Domestic CV volumes continue to remain muted and are dependent on the return of adequate short distance mobility demand. Within CV, cargo has fared better than the passenger, and Bajaj's share has increased to its highest ever level of 37%. Overall, the market share in the CV segment was at 53.3%.
- Export continues to perform very well, and September was the highest ever month at 2,12,000 units. A strong revival of demand was witnessed in Latin America and Africa while ASEAN continues to be weak and Sri Lanka has stopped all vehicle imports. The growth in LATAM is driven by the Sports segment -Pulsar and Dominar.
- During the quarter, Bajaj Auto introduced Pulsar 125 Drum Split Seat and expanded the footprint of Pulsar 125 Disc Split Seat. Further refreshed versions of Platina 100 ES and Duke 50 were also introduced.
- The company maintained surplus cash and cash equivalents at Rs 16240 Cr as of 30th Sep 2020.

Investor Conference Call Highlights

- The The management credits the company's supply chain response for helping post its highest-ever export number in September.
- The company increased prices in Q2 and passed on the impact of the MEIS withdrawal.
- The company is now facing not only Chinese competitors in export markets, it is also facing Japanese brands manufactured out of China.
- The blended margin had taken a hit due to the fall of 3 wheelers in the product mix which is a high margin product for the company. This hit was offset by the improved performance and expansion by the Pulsar brand.

- The Pulsar 125 has managed to capture a 16% market share in the 125cc category despite being the most expensive 125cc motorcycle on the market. The rise of Pulsar 125cc has also contributed to the rise of the 125cc segment which has expanded to 25% of the total market from 20% last year.
- Another contributor to margin was the highest ever sales of ultra-high end segment of KTM and Husqvarna.
- All in all, the domestic motorcycle division saw its highest margin profile in the past 15-16 quarters.
- Domestic demand for motorcycles has recovered to 90% of pre-covid levels.
- Domestic CV recovery on the other hand has been very slow mainly due to slow recovery in the 3 wheeler space.
- The management expects sales to continue rising for each month in Q3.
- In the disc vs non-disc segment of the 125cc market, Pulsar 125 has managed to capture 40% of the disc category since launch a few months ago.
- Around 2/3rd of the drop in other expenses is mainly due to a drop in marketing spending. The rest is due to operating cost reduction.
- The management has stated that input costs are certainly manageable. Although the margin performance has been outstanding in Q2, the management expects only a 50-75 bps correction in margins going forward and even that is expected only due to higher sales promotion spending.
- The management doesn't expect any significant discounting trends as the entire industry is suffering.
- The uptake of Pulsar125 has been especially good in small towns as well as big cities and the management considers it a pan India phenomenon without much distinction in rural and urban demand.
- The is still some uncertainty in domestic demand from the underlying economic contraction in the country. Whether demand comeback is sustainable or not will be better gauged in December when festive demand is over and pent up demand should have been covered.
- Three-wheeler demand is expected to rise back slowly as traffic resumes and financiers come out.
- ASEAN area is at 50% recovery. South Asia and the Middle East, apart from Sri Lanka, which has banned imports, is at about 90% recovery. Africa is at 90-95% back and LATAM is at 80% of previous levels.
- The management is expecting a good season in the Christmas period in the Philippines and LATAM to come back to 100% by then.
- The management expects Pulsar 125 to capture more market share as the marketing activity intensifies.
- 80-85% of export revenue comes from markets where the company has a minimum of 25% market share or is at the top 2 positions in the country.
- It is still too early to tell whether demand will shift from 4 wheeler CV to three-wheeler CV due to price increase from BSVI. This is because industry recovery has been very slow and only when the segment comes back to normal can it be verified.
- The top half of the motorcycle pyramid has grown. This is mainly due to the fact that financiers are being more cautious with the entry-level customer. This is also helping spur premiumization for the company.
- Currently, around 52% of sales are financed and 60% of all the financed sales are through Bajaj Auto Finance.
- The management expects financing penetration to come back to FY20 levels of 70-72%.

- The company has stocked up at the dealer level so that it does not miss out on any upward surprise in demand and put undue stress on its supply chain.
- The normal level of stocking for the festive season is around 45-48 days.
- The main aims for the company are expanding the 125cc category, holding its market share in the sports category, and taking the top part of the entry-level segment. That is to expand rigorously in the mid-segment, hold the leadership in the top and skim the top of the entry-level in the motorcycles segment in India.
- There hasn't been any significant impact on RM prices in Q1 & Q2. But the management is expecting RM costs to rise in Q3.
- The staff cost run rate is expected to stay stable at Rs 325-340 Cr per quarter.
- Three-wheeler demand is better in export markets than in India currently. It has recovered to 75-80% levels in most export destinations. But ASEAN countries remain at below 50% level and Sri Lanka has outright banned the import of 3 wheelers in the country.
- Egypt has shown good recovery and the company has been able to capture around 90-95% of the market share there.
- The spare parts revenues in Q2 were at Rs 733 Cr while export revenue was at Rs 2800 Cr.

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. The company has seen a good recovery in Q2, especially in the domestic motorcycles segment. The company has received a very good response to Pulsar 125 which has managed to capture 16% market share despite being the most expensive bike in the category, all in a few months of launch. The recovery of the 3 wheeler segment on the other hand has been very slow. It remains to be seen whether the recent rise in demand is sustainable and can be maintained beyond the festive season and how will the RM costs fare out in the near future. 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.

If you are interested to know about the business of BKT in detail, watch this video

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1597	1152	38.63%	962	66.01%	2559	2417	5.88%
PBT	451	256	76.17%	162	178.40%	612	509	20.24%
PAT	339	291*	16.49%	122	177.87%	461	467	-1.28%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1598	1165	37.17%	979	63.23%	2577	2438	5.70%
PBT	452	260	73.85%	172	162.79%	625	515	21.36%
PAT	341	294*	15.99%	132	158.33%	473	471	0.42%

*includes negative tax of Rs 35 Cr.

Detailed Results:

1. The revenue for the quarter grew 37% YoY in consolidated terms.
2. PBT was up 76% and 74% YoY in standalone and consolidated terms in Q2.
3. Consolidated PAT was up 16% YoY in the quarter.
4. Record Sales volumes for the quarter came in at 61,224 tons which were up 61% QoQ and 35% YoY.
5. Sales volumes for H1 were up a modest 3% YoY which is very good considering the fall in performance in Q1.
6. The EBITDA margin improved 610 bps YoY to 34% in Q2.
7. Net forex loss for Q2 was at Rs 4 Cr vs a gain of Rs 55 Cr a year ago.
8. Sales breakup for the company is:
    1. Agri-64%, OTR-33%, Others-3%.
    2. Replacement-71%, OEM-25%, Others-4%
    3. EU-51%, Americas-14%, India-23%, RoW-13%
9. The company remains debt-free with current cash holding at Rs 1299 Cr as of 30th Sep 2020.

10. The previously guided CapEx programs are on track for the company.
11. The company announced a 2nd interim dividend of Rs 4 per share.
12. The company has become a premium partner for EUROLEAGUE BASKETBALL and is also sponsoring the Tractor of the year (TotY)-EUROPE award.

Investor Conference Call Highlights

1. The company's current capacity is at 3,05,000 MTPA including 5,000 MTPA for ultra-large All Steel radial mining tire.
2. Due to some redundancy in product sizes and technology, this capacity can come down to 280,000 MTPA.
3. BKT is exploring investments by the way of a brownfield CapEx at existing locations to create capacity.
4. The management expects FY21 volumes to exceed FY20 volumes.
5. The management is guiding for marginal growth in volumes in FY21 mainly due to the second coming of COVID-19 which is expected to slow down sales momentum in the company's principal market of EU.
6. The inventory buildup since March in the EU has come down significantly and is slowly being built up to normal levels. The company has also gained market share in both Agri and non-agri segments in the region.
7. The management maintains that the company's long term EBITDA margin shall stay in the 28-30% range.
8. The company has generally seen a trend of rising rubber prices.
9. The company has hedged for euro at 82.4 in Q2 and 83.4 in H1. For FY22, the rate is at 85.
10. Production during the quarter was at 61,223 tons.
11. The market trend in India is strong and the company is steadily gaining market share. It has also seen a good increase in visibility and brand image due to the sponsorship with IPL 2020.
12. The management is aiming to keep expenses at around 21% of sales.
13. The company has seen good growth in the OTR segment which has seen this segment revenue share rise to 33% from 20% previously. The company is also optimistic about this segment due to the launch of its ultra-large radial tires.
14. The company is gaining good market share in Asia and Australia but is struggling in South America and Africa due to import restrictions in these regions.
15. The import ban on tires in India has not had any impact on BKT as it is applicable only to commercial vehicles.
16. The company has gotten confirmation from its OEM customers that there will not be any delay in procurement and distributors expect sales to continue despite lockdown in the EU.

17. The management insists that the growth in volumes in the EU was organic in nature and was not due to any ban on Chinese tires as there hasn't been any such ban.
18. The EBITDA margin of 34% in Q2 is expected to be a one-off and over the long term, margins are expected to stay in the guided range of 28-30%.
19. The company will not be looking to take any impairment charges for the reduced capacity as no machines will be redundant. The existing machines will be repurposed for larger sizes from smaller sizes and this will result in lower overall capacity. This shift towards larger sizes is purely due to current market trends.
20. The company will continue to add around 100 SKUs each year.
21. The gross margin for Q2 was at 61%. The management state that the sustainable gross margin for the company should be at 58%.
22. The management is confident that the reduced capacity will be enough for the company's growth prospects for the next 2-3 years.
23. The carbon black sales are at 2% of overall sales for BKT. This is around 20% of the carbon black capacity for BKT.
24. The Capex guidance for Fy21 was at rs 700 Cr out of which Rs 350 Cr is already done. Capex for FY22 should around similar levels. The maintenance Capex should be at Rs 200 Cr per year.
25. In the USA, the company is seeing good pull demand due to its branding efforts in the last 2-3 years. It is also increasing its dealer network. The company is also developing USA specific products which should also help the company capture more market share here.
26. The brand spending will remain roughly the same at current levels of Rs 100 Cr per year.
27. There shouldn't be a major change in average selling price due to the shifting product mix from the reduction in capacity. The ASP is expected to remain near Rs 250 per kg for the company.
28. BKT's market share is about 5% to 6% in the Indian market. There is good scope for market capture in India for BKT according to the management.
29. On average selling price and realization is lower for sales in India as compared to export sales.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company witnessed a tepid Q1 mainly due to the disruption in sales from COVID-19. It has however been able to increase EBITDA margins and volumes YoY in Q2. The company is also expecting sales volumes to grow marginally in FY21 over FY20 which is a testament to the company's revival post-COVID-19. The company is also looking to shift its product mix more towards larger sizes which are expected to result in marginally lower capacity which the management assures will be enough for growth prospects for the next 2-3 years. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2223	2327	-4.47%	884	151.47%	3108	4868	-36.15%
PBT	478	599	-20.20%	16	2887.50%	495	1307	-62.13%
PAT	361	570	-36.67%	12	2908.33%	373	1069	-65.11%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2234	2338	-4.45%	932	139.70%	3166	4840	-34.59%
PBT	459	601	-23.63%	-51	1000.00%	408	1264	-67.72%
PAT	343	573	-40.14%	-55	723.64%	288	1024	-71.88%

Detailed Results:

1. The company had a mixed quarter with a 4.5% YoY fall in consolidated revenues and a 40% YoY fall in PAT.
2. Volumes for H1 was at 208,000 vs 346,000 last year.
3. EBITDA margins for Q1 shrank to 16.8% in H1FY21 vs 25.5% last year.
4. The company added 171 new studio stores 7 25 large format stores in H1 bringing the total locations up to 1717.
5. The company still enjoys a market share of more than 90% in its segment of 250cc+ motorcycles and a market share of 23.3% in the 125+ cc category.
6. Export sales have risen from 96% YoY to 38700 units in FY20.
7. 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.
8. The company launched Meteor 350 model in Q2.
9. MiY and 3-D Configurator to be available on the Royal Enfield App, the website and across 320 stores initially.
10. The total CV volumes sold in H1 were at 10,296 units.
11. The market share of VECV in the domestic 3.5-15 ton segment rose to 33.6% vs 28.1% a year ago.
12. The market share in buses excluding exports increased to 30.4% from 14.7% a year ago.
13. The market share in the heavy-duty segment increased to 7.2% from 4.8% a year ago.

14. VECV saw a loss of Rs 127 Cr in H1.

Investor Conference Call Details:

1. MiY is now available on the Meteor 350 as well as on the 650 Twin motorcycles.
2. The new launch Meteor 350 saw good reception and already has more than 8000 bookings.
3. The MiY platform is proving to be a significant differentiator for the company as compared to the rest of the market. 90% of Meteor bookings were from the MiY app.
4. Online inquiries have risen 7 times YoY while conversion rate has also improved to 12-13% from 2-3% previously.
5. Demand slowly rising up with bookings in Oct surpassing last year's levels at 125k bookings.
6. The company produced around 72000 units in Oct.
7. VECV volumes were down 28% YoY which is much better than the industry average of 46% YoY decline. This led to an increase in overall market share to 20.6% vs 13.6% a year ago.
8. The company plans to introduce a new model each quarter for the next few years.
9. The company added 6 new international exclusive stores in Cambodia, Costa Rica, Mexico, UK and Thailand.
10. Average selling price improved YoY mainly on the back of price hikes od Rs 3000 in Bullet and Rs 2000 in others.
11. The management has stated that the core market for Meteor is the 100-150cc motorcycle segment in India.
12. The management also believes that the new Meteor model will be able to capture a different type of customers who have so far stayed away from the retro-looking models of RE.
13. The margin contraction in H1FY21 was mainly due to operating deleverage and BSVI transition.
14. The margins are expected to improve going forward as operating leverage kicks in and cost rationalization efforts bear fruit.
15. The company has already done Capex of Rs 200 Cr in the year so far and will be doing Rs 400-500 Cr for the whole of the year.
16. There are signs of revival in the CV market and the management holds a positive outlook for the segment in H2.

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 and a swift comeback in both segments. 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 a good response to the MiY platform which has transformed the company's online presence and conversion. The launch of the Meteor model was also very timely and is expected to expand the company's portfolio and capture the huge 100-150cc market. The company still faces the major challenges plaguing the industry like how long will demand take to 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.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	114	129	-11.63%	44	159.09%	157	261	-39.85%
PBT	19	21	-9.52%	1	1800.00%	20	46	-56.52%
PAT	14	20	-30.00%	1	1300.00%	15	36	-58.33%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	129	136	-5.15%	44	193.18%	173	267	-35.21%
PBT	26	24	8.33%	0	-	26	40	-35.00%
PAT	20	22	-9.09%	0	-	20	32	-37.50%

Detailed Results:

1. The company had a mixed quarter with consolidated revenues declining 5% YoY and PBT rising 8% respectively YoY.
2. The company made a good recovery QoQ which is highlighted in the QoQ rise in almost all figures.
3. H1 figures remained subdued due to bad performance in Q1.
4. The company has announced a buyback offer for 1.65% of total equity shares at the price of Rs 400. The record date for the buyback has been set on 25th November.

Investor Conference Call Highlights

1. The months of September and October have been good for the company.
2. The management has seen auto sector demand reviving but footwear demand remains subdued.
3. December and January should be at most 10-15% lower than the last figures for the company according to the management.
4. The bigger worry for the company is the onset of COVID-19 in the EU which can dampen the company's fledging exports.
5. The company is already approved by Mercedes-Benz for the supply to their South Africa plant and product supplies is expected to start for their new model from next quarter. The product approval from BMW has also been received.
6. Automotive sales may have been revived due to people avoiding public transport due to COVID-19.

7. The management expects footwear demand to come back since the wedding season has started in India.
8. PU sales have been subdued as most customers had stocked up in imported PU before the lockdown and have yet to run out. The govt of India has imposed an import duty of 10% on Pu which should help boost sales for the company and any other local makers.
9. The company has been able to increase pricing by 5% in Oct and 7% in Nov.
10. Exports accounted for 22% of sales while the rest 78% was domestic in Q2.
11. The breakup by segment is: Export general is 9%, export OM is 13%, domestic auto is 19%, auto replacement is 22%, footwear is 26%, furnishing and others are at 7%.
12. Total volumes sold in Q2 was at 58,44,868 meters.
13. Gross margins for the company depend primarily on volumes. Thus more volumes sold will yield greater gross margins.
14. The management expects the company to come back to the old margin profile in Q3.
15. Volkswagen orders are expected to be around 30,000, 40,000 meters per month at a price of at least INR 500 per meter. This is expected to start from March or April 2021.
16. The company is also pitching hard to get new models from America like Ford and Chrysler.
17. The management believes that it will take at least 1 year for the market to get established for PU.
18. The price that the company can commend from auto companies in the USA should be at least $12 per meter. The company is also in good standing as Ford & Chrysler are looking to add PU and Mayur is one of the only 2 companies in the world doing PU for auto.
19. The management maintains that Mayur will achieve cost savings of 15% in FY21.
20. The management is confident that given the large export orders that the company has bagged, it can easily surpass its record volumes sold in FY22.
21. IN the existing PVC lines, the company has a capacity to churn out 27-28 lac meters a month.
22. The management is not concerned about competition from China for PU as Chinese companies for PU are in bad shape as most of them had resorted to price competition and the rise in RM costs has left them in big trouble.
23. The annual revenue run rate for the PU line at full capacity is Rs 125 Cr.
24. The footwear market is down as most of the industry sales were from physical stores where customers could try out the products. Even big players like Bata are running at lower than 70% capacity.
25. The approved order from BMW will start in 2022.
26. In exports, auto exports are going mainly to the USA while general export is going all over the world.
27. For backward integration, the company is now adding foam laminations in the next 4-5 months as Ford, MG and Volkswagen are asking for laminated material and the integration can save Rs 25-30 on freight costs at the least.
28. The company is also looking to move to microfiber which has a price range of $7-20 depending on quality.

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. Q2 performance for Mayur was good with good

recovery in the auto segment while footwear remained subdued. 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. The company's export orders from Mercedes and Volkswagen should help the company maintain good growth in the medium. The new import duty on PU should also help the company increase its PU sales which have stayed stagnant to date. 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.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	905	830	9.04%	232	290.09%	1137	1676	-32.16%
PBT	96	56	71.43%	-81	-218.52%	15	98	-84.69%
PAT	64	44	45.45%	-53	-220.75%	11	76	-85.53%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1478	1365	8.28%	421	251.07%	1898	2811	-32.48%
PBT	129	69	86.96%	-156	-182.69%	-27	153	-117.65%
PAT	84	52	61.54%	119	-29.41%	-34	108	-131.48%

Detailed Results:

1. The company had a mixed quarter with a revenue rise of 8% YoY and consolidated PAT growth of 61.5% YoY.
2. The EBITDA margins rose to 14.71% in Q2FY21 vs 11.9% a year ago. EBITDA for Q1 stood at Rs 215 Cr vs Rs 162 Cr last year growing 33% YoY.
3. The revenue of Lighting, Acoustics, and Others grew in Q2 while Switches and Light Metal saw slight declines.
4. There will a delay in commissioning of plants by 4-6 months for 2W alloy wheel and Sensors.
5. Almost 83% of revenues were from domestic sources while 17% were from exports. In terms of channels, 86% of revenues were sourced from OEMs while 14% were from the replacement market. 48% of sales were for 2 wheelers while 52% were for 4 wheelers.
6. The revenue share of various segments in Q1 is as follows:
    1. Switches: 32%
    2. Lighting: 25%
    3. Acoustics: 11%
    4. LMT: 12%
    5. Others: 19%
7. The plants are now operating at 80% of pre-COVID levels.
8. The NCLT hearing for a merger with Harita Seating Systems is scheduled for 16th Nov 2020.
9. The rights issue for the company has been completed for Rs 242.8 Cr.
10. The latest operational updates on the company's various segments are:

1. Switches:
    1. 2W Switch: Higher kit value on account of new feature and BS-VI change over
    2. 4W: New Product: Sun Roof, Gear Shifters, and Neutral Switches been localized (Import substitution)
2. Lighting:
    1. 2W Lighting: New orders from RE, E-Bikes TVS, Bajaj, and Honda
    2. 4W Lighting: MSIL new SUV Model LED tail lamp with rear facia
    3. Delvis: New orders from Daimler and Audi
3. Acoustics: First order for Electronic horn for M&M PV division
4. LMT:
    1. LPDC Line to start commissioning to be ready for customer inspection by Q4
    2. 2W alloy wheel plant is operational
5. Others: Started supply of Wheelspeed Sensor has been started for Korean customers (In Korea)

11. Toyoda Gosei Japan (TG) and Minda are consolidating their business under one umbrella. TGMINDA has acquired a 95% stake in TGSIN from TG Japan in Sep-20.
12. Board has in principle approved the merger of MINDATG into TGMINDA.
13. Board has approved the purchase of a ~13% stake in Tokairika Minda Pvt. Ltd. (TRMN) from Minda Finance Limited as part of the group consolidation exercise. TRMN is engaged in the business of Seat Belts, Gear Sifters, Locks, and safety devices. For FY20 TRMN reported a turnover of Rs 600 Cr.

Investor Conference Call Highlights

1. The finance cost is lower on account of reduced interest rates and utilization of cheaper sources of funding like commercial papers.
2. The depreciation had been higher due to the amortization of intangibles related to the acquisition of Delvis and commissioning of the new alloy wheel plant at SUPA.
3. The total borrowings as of September 30, 2020, were at around Rs 1,152 Cr compared to Rs 1,159 Cr for Q1FY21. Approximately Rs 298 Cr of cash was available as of September, resulting in net debt of around Rs 823 Cr.
4. Sales in Sep of the 2W alloy wheels were at Rs 3 Cr. The peak revenues from the segment are expected to be Rs 470 Cr.
5. The cost savings have been Rs 6-6.5 Cr a month.
6. The cost savings have come from a reduction in other expenses and renegotiation of rental agreements to include a full-year reduction.
7. The main rationale behind the consolidation is the savings of nearest overheads and common costs of common functions which should help improve overall margins.
8. A major part of the proceeds from the rights issue has been used by TG Minda for the acquisition of TGSIN. The rest was used to repay debt.
9. In TRMN, the company has the option to increase the shareholding from 13% to 30% and it is looking into it now.
10. The management expects the merger with Harita to be completed by the end of the current financial year.
11. The company has already gotten some business for Harita from a Japanese OEM so far.
12. The company also plans to launch the Harita Seating Systems into our aftermarket channel.

13. The company's goal remains to outperform industry growth and double revenues in the next 4-5 years.
14. The management is also looking to create significant cross-sell opportunities with customers of Harita.
15. Demand is coming back to the auto sector mainly on the back of increased demand for personal mobility at the expense of public transport due to COVID-19.
16. Gross margins for TRMN have been 25-26% while EBITDA margin was at 8%.
17. The company expects to commence production in all 4 lines for the 2W alloy wheels by the end of FY21 and take roughly around a couple of quarters to stabilize the plant.
18. Maruti has been an Anchor customer for the company and Minda has 5 dedicated plants for Maruti alone.
19. For the wheel speed sensor, the company has not only bought the customers, it has also gotten a few Korean customers with it as well. The company has also manufactured some volumes of inventory in China with the newly constructed lines and then moved those lines to India.
20. The company will be able to start exports from India for this segment from Q4 onwards.
21. The pass-through lag for input commodity price increases is typically 1 quarter.
22. On a full-year basis, most of Minda's contracts are structured in such a way that they have a quarterly or annual price adjustment only.
23. The company spent Rs 150 Cr in Capex in H1, most of which was in the alloy wheel project and the sensor project. The total Capex for the year is expected to be at Rs 250 Cr.
24. The investment in TRMN should be around INR 65-odd crore in total.
25. Minda TG is a company where Minda has 51% holding and it makes fuel hoses and brake hoses. It has annual revenues of Rs 60-70 Cr.
26. Total revenues for TG are at Rs 600 Cr while for TG Minda is at Rs 300-350 Cr. The merged entity should have annual revenues close to Rs 1000 Cr.
27. The company has seen revenue decline despite volume growth due to a shift in product mix towards lower-end products.
28. The ordering cycle in lighting should yield revenues from FY23 onwards and should bring in Rs 200 Cr.
29. Delvis is not doing any manufacturing on its own and is mainly operating through contract manufacturing.
30. The management has stated that the majority of the Capex to pursue growth has already been done and it does not expect that kind of CapEx cycle to come soon.
31. Penetration of alloy wheels is increasing in general and the company is now in process of installing another 30,000 wheels a month line in Gujarat.
32. The new orders for switches for sunroof and gears have take value of around Rs 500 per car.
33. In acoustics, around 2/3rd of sales comes from exports while only 1/3rd comes from India.

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 good quarter with swift demand revival and good reception for its new segments of alloy wheels and lighting orders. The company has also managed to gain good orders for its Lighting business from Audi & Daimler through its acquisition of DELVIS. It has also gained good orders for Lighting from Royal Enfield, Honda, Bajaj Chetak, etc. It

remains to be seen whether recovery will be as fast as the management expects. The management has a goal of doubling revenues in 4-5 years. It is still early days to comment on that. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3579	3051	17.31%	3405	5.11%	6984	6013	16.15%
PBT	1233	1161	6.20%	735	67.76%	1968	2391	-17.69%
PAT	920	972	-5.35%	550	67.27%	1470	1775	-17.18%

Detailed Results:

1. The revenues for Q2 grew 17% YoY. PAT fell 5% YoY mainly due to higher provisions of Rs 395 Cr vs Rs 145 Cr last year.
2. The company saw its highest ever quarterly PBT in Q2.
3. Deposit portfolio grew 34.4% YoY and 9.1% QoQ.
4. Loan portfolio (on book + off book + TLTRO) grew 19.4% YoY.
5. CASA grew 56.2% YoY.
6. CASA ratio at 38.2% against 37.1% QoQ.
7. Added 5.02 lakh customers during the quarter with a total customer base at 2.08 crore as on Sep 30, 2020.
8. Capital Adequacy Ratio (CRAR) at 25.7%; Tier I at 22.2%.
9. During the quarter the Bank has taken accelerated additional provision on standard advances amounting to Rs 300 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 2096 Cr.
10. Net Interest Income (NII) for the quarter grew by 25.8% YoY to Rs 1,923 Cr as against Rs 1,529 Cr in the corresponding quarter of the previous year.
11. Non-interest income grew by 6.1% YoY to Rs 381.8 Cr for the quarter against Rs 360 Cr in the corresponding quarter of the previous year.
12. Operating Profit for the quarter increased by 24.6% YoY to Rs 1,627 Cr against Rs 1,307 Cr in the corresponding quarter of the previous year.

13. Net Interest Margin (annualized) for the quarter stood at 8% (merged) against 8.2% on Sep 30, 2019.
14. Total Advances (on book + off book + TLTRO) grew by 19.4% YoY to Rs 76,615 Cr at the end of Q2FY21 against Rs 64,185 Cr in the previous year, and 3.1% QoQ against Rs 74,330 crores in the previous quarter.
15. Total Deposits increased by 34.4% YoY to Rs 66,128 Cr in Q2 as compared to Rs 49,195 Cr in the previous year, and 9.1% QoQ against Rs 60,610 Cr in the previous quarter.
16. Gross NPAs as on Sep 30, 2020, is at Rs 874 Cr (1.2%) against Rs 1064 Cr (1.8%) last year.
17. Net NPAs as on Sep 30, 2020 is at Rs 262.5 Cr (0.4%) against Rs 337 Cr (0.6%) last year.
18. Cost to income ratio was at 29.4% in Q2 vs 30.8% last year.
19. The retail deposit to total deposits was 77%.
20. EEB collection efficiency had reached 89% of value and 94% of customers at the start of Oct.
21. The average LTV in the Mortgage segment was at 67%.
22. The cost of funds was at 6.2% in Q2.
23. 142 new locations opened in Q2.

Investor Conference Call Details:

1. September overall banker collection efficiency has come at 92% in the overall bank.
2. Collection efficiency in micro banking has come at 91%.
3. In October, 95% of Microcredit customers have started repaying.
4. The bank plans to open up 574 new locations in FY21.
5. Another 500 outlets are planned in housing finance business in FY21.
6. The company is developing a new 5 year development plan. According to it the EEB (Emerging Entrepreneurs Business) or the microcredit business should be at 30% of overall business for the bank. And all of the bank's existing offerings like different loans, deposits, etc should be enabled through its microcredit branches.
7. 2nd part of the plans is to grow the housing finance business to 30% of overall business. The idea is to offer 2 types of loans, a micro housing loan and a prime housing loan.
8. 3rd part is the commercial banking business which should come to 30% of business. This business should help promote existing customers from micro credit which is an individual loan to MSME loan.
9. The 4th part will be to develop personal, vehicle loans which are namely consumer loans. This should be at 10% of business.
10. The management is not concerned with the fall in average deposits for microfinance customers from Rs 2100 to Rs 1600 in last 6 months as it is indicative of the current uncertain times that the whole country is going through.
11. Instead of conducting a big group meeting of 20-25 people, the collection agents are instead going to their individual homes in order to prevent large gatherings.
12. Micro housing will go under the EEB division while housing finance will be going on with affordable housing. Average ticket size is near 9-10 Lacs and is steadily increasing.
13. The company will aim to preserve current yields as it looks to implement its 5 year plan and see the product mix evolve.
14. The management has clarified that prime housing will have lower yield but micro housing will come with higher yield.
15. Collection efficiency from WB was at 90% and from rest of India was at 91%.

16. A big stumbling block in the way of collections is train services not running as before. If train services normalised, collection efficiency would have risen 5% according to management.
17. The company is now allowing top up loans and has relaxed its one loan policy due to the current economic environment. It disbursed a total of 21,27,817 new loans in Q2.
18. The percentage of top-up loans currently stands at 7.6% of the total EEB book.
19. In terms of customer base, around 12.3% of EEB customer set have taken top up loans.
20. The bank will not be charging any interest on interest for any customer and any missing payments will only push back the payment schedule.
21. The company started top up loans as Bandhan was the only one in the industry doing the 1 loan only policy and thus its customers would go to other players for top up loans.
22. The same considerations done when evaluating a customer at the time of a fresh loan is done for top up loan as well.
23. The bank has a policy to never provide fresh loans to preclose existing loans.
24. The management reiterated that the end goal for high vintage micro banking customers is to move them into the MSME segment. Since the bank has had a long association with such customers and has long payment history, it has better information on credit and risk position of such a customer.
25. The bank's main advantage in its home region of East India is the deep distribution network and the 10 year long history which has helped the bank acquire and retain quality customers.
26. The bank has written off Rs 109.21 Cr of micro loan book in Q2.
27. Collection efficiency in Assam has reached 87%.
28. 95-96% of borrowers have started operating their businesses.
29. The average ticket size of top up loans in H1 was at Rs 35,000.
30. 76% of customers are making full payments on schedule.
31. The bank has reduced the term deposit rate by almost 150 basis points in H1 and it will reprice it in a quarter or more.
32. In savings deposits, 63% of customers have deposits of greater than Rs 1 Lac.
33. Total fee income for Q2 was at Rs 382 Cr.
34. MFI AUM breakup for top 4 states is 47% for WB, 17% for Assam, 9% for Bihar, & Maharashtra 3-5%.
35. The company operates in 3 verticals for commercial banking. In one vertical the ticket size is at Rs 2 Cr or more where the bank competes with NBFC and banks. Another has a ticket size of Rs 30 Lacs for smaller SMEs and the last one has ticket size of Rs 3-3.5 Lac.

Analyst's View:

Bandhan Bank has aggressively grown its business over the last few years. The company had a decent quarter with good YoY growth in deposits and loans. Management is confident that the business is back to normalcy and is now looking to implement a new 5-year development plan. The company is seeing good traction in mortgage and commercial lending businesses. It is also confident of leveraging its existing customer set effectively to maintain its growth rate and upscale old MFI customers into SME loans. 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. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	36069	33755	6.86%	34453	4.69%	70523	66117	6.66%
PBT	10110	8997	12.37%	8938	13.11%	19048	17531	8.65%
PAT	7513	6345	18.41%	6659	12.82%	14172	11913	18.96%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	38438	36131	6.39%	36699	4.74%	75137	70455	6.65%
PBT	10378	9429	10.06%	9340	11.11%	19717	18264	7.96%
PAT	7711	6649	15.97%	6941	11.09%	14652	12340	18.74%

Detailed Results:

1. The net standalone revenues rose 6.9% YoY in Q2.
2. NII grew 16.7% YoY to Rs 15776 Cr driven by growth in assets of 21.5% YoY and core NIM of 4.1%.
3. Other income formed 27.9% of net revenues at Rs 5589 Cr.
4. The breakup of other income is:
5. Fees & Commissions: Rs 3940 Cr vs 4054 Cr last year.
6. FX & Derivatives: Rs 560 Cr vs 552 Cr last year.
7. Gain on sale/revaluation: Rs 1016 Cr vs 481 Cr last year.
8. Miscellaneous Income: Rs 576 Cr vs 502 Cr last year.
9. The impact of COVID-19 on other income is estimated to be at Rs 800 Cr in Q2.
10. Operating expenses were up 8.8% YoY. The cost to income was at 36.8% vs 38.8% a year ago. Operating expenses were lower primarily due to lower loan origination and sales volumes.
11. Pre-provision Operating Profit grew 18.1% YoY. Provisions and contingencies for the quarter were at Rs 3703 Cr. Total Provisions include Rs 2300 Cr for proforma NPA.
12. The specific Credit Cost ratio was at 0.47%. Core Credit Cost ratio was at 0.91% vs 0.9% a year ago and 1.08% in June 2020.
13. Standalone PAT rose 18.4% YoY.
14. Total Balance Sheet size rose 21.5% YoY. Total Deposits rose 20.3% YoY while CASA deposits rose 27.5% YoY. Time deposits grew 15.7% YoY. The bank maintained an LCR of 153%.

15. Total advances rose by 15.8% YoY with domestic advances rose 15.4% YoY. Retail advances grew 5.3% YoY while wholesale advances grew 26.5% YoY. Retail to the wholesale mix was at 48:52.
16. H1 revenues grew 6.6% YoY while Profits grew 19% YoY.
17. The bank maintained a CAR of 19.1%. with Tier I CAR at 17.7%.
18. GNPAs was at 1.08% on 30th June 2020. NNPA was at 0.17%. If the bank classified borrower accounts as NPA after 31st Aug 2020, Gross NPA would come out to 1.38% and NNPA would be 0.35%.
19. The bank maintained floating provisions of Rs 1451 Cr and contingent provisions of Rs 6304 Cr. Total provisions were at 195% of GNPAs.
20. HSL saw revenues for the quarter rose to Rs 341 Cr vs Rs 189 Cr last year. PAT was at Rs 167 Cr vs Rs 91 Cr last year.
21. HDB Financial Services saw a total loan books rise by 2.3% YoY and LCR at 214%. NII for the subsidiary was at Rs 924 Cr vs Rs 971 Cr last year. PAT fell to Rs 23 Cr from Rs 213 Cr last year. GNPA here was at 4.3% while NNPA was at 3.1%. CAR was maintained at 19.6%.

Investor Conference Call Details:

1. The fees and commission income has been impacted by around INR 700 crores due to COVID pandemic.
2. The bank has added 297 branches YoY and 104 branches QoQ.
3. The bank has also added 11,931 business correspondents since last year and has added 5,589 in Q2.
4. The reported slippage ratio is at 0.8% in the current quarter.
5. GNPA ratio reported excluding NPAs in the agricultural segment was at 0.9%.
6. The branch channel and other channels managed to mobilize 1.2 million customer acquisitions in the quarter ended June. The bank has added 1.8 million new liability relationships in Q2 thanks to digitization.
7. Disbursals in Q1 were at 80-85% of last year's levels and 2.5 times June levels.
8. The bank added 1550 new wholesale SME customers in Q2. The bank made a disbursal of greater than Rs 5000 Cr in Q2 in this segment.
9. The management stresses that despite the growth in assets, the bank has managed to improve NIM which should be close to the question of NIM dilution from growth in assets. Given the quality of the bank's book, it has also seen more instances of prepayments from top-rated corporates.
10. The bank has announced a partnership with the Apollo Hospitals Group to provide customers access to quality health care with instant financing delivered digitally.
11. The bank has also seen a surge of gold loans with robust growth of almost 60%.
12. In both loans against property and retail working capital loans, the bank is back at pre-covid levels.

13. The bank has been cautious in the MFI business and expects a full-scale recovery within the next 90 days in this segment.
14. The management reports a rise in demand of 34% for two-wheelers at the industry level.
15. The management sees a significant opportunity to transform the automotive landscape over the next 3 to 5 years. They believe that 90% of the car purchase journeys in the industry are actually initiated online, which should facilitate the shift from physical to digital purchases in this segment. The bank aims to form a distinctive loan experience that will include a customer's journey from search to probably test drive, maybe exchange, and a couple of sales initiatives.
16. In the unsecured personal loan business also, the bank sees good opportunity over the next 3 to 5 months to substantially digitize the open-market acquisition.
17. The wholesale portfolio of the bank remains at the AA rating level and at 4.4 in its 10-point (10 being riskiest) scale which is unchanged in the last 6 months.
18. 75% of the externally rated portfolio is either AAA or AA.
19. The management estimates that the reported 9% stressed part of the portfolio can be brought down to 3%.
20. The non-moratorium portfolio already has a demand resolution of 99%.
21. The collection efficiency on the moratorium portfolio as a whole is expected to be at 97%.
22. The management maintains that although the overall economy has some ways to go before full recovery, the bank is seeing a faster recovery in operations as its customers are primarily top end corporates and the top-end salaried population segment in India who are expected to recover the fastest.
23. The management maintains that the bank shall continue to maintain NIM at 4-4.5% range in the future.
24. The fall in PAT in HDB financial services is mainly due to the YoY rise in provisions. Pre-provision PBT was up 10%+ for the entity.

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 Q2FY21 with more than 20% growth in Balance Sheet and advances. It is a testament to the bank's brand image that the bank is able to bring back operations to pre-covid levels in almost all of its operating segments. The management remains optimistic about the potential opportunity for the bank from digitization and its role in creating never before seen user experience journeys in diverse segments like unsecured personal loans and car loans. It remains to be seen how the whole COVID-19 scenario will pan out in the near future and whether there are any surprises in store from it still. The bank has seen its iconic CEO Mr. Aditya Puri step down and the new CEO Mr. Sashidhar Jagdishan assumes the post. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	8288	7986	3.78%	7685	7.85%	15973	15931	0.26%
PBT	2929	2101	39.41%	1662	76.23%	4591	4183	9.75%
PAT	2184	1724	26.68%	1244	75.56%	3429	3085	11.15%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	13591	12543	8.36%	12323	10.29%	25915	24673	5.03%
PBT	3914	2945	32.90%	2435	60.74%	6350	5858	8.40%
PAT	2933	2399	22.26%	1840	59.40%	4774	4326	10.36%

Detailed Results:

1. The net standalone revenues rose 4% YoY in Q2. Consolidated revenue was up at an 8.4% gain YoY in Q2.
2. Consolidated profit rose 22% YoY in Q2 Standalone Preprovision profit rose 31% YoY in Q2.
3. On a standalone basis, NII grew 16.8% YoY. NIM was at 4.52% vs 4.61% a year ago.
4. Standalone CASA was at 57.1% vs 53.6% a year ago.
5. Avg Savings deposits rose 25.7% YoY to Rs 1,08,990 Cr. Avg current deposits rose 6% YoY to Rs 40,454 Cr.
6. Advances fell slightly YoY at Rs 204,845 Cr vs Rs 213,299 Cr.
7. Standalone CAR was at 23.4% with Tier I ratio at 22.8%.
8. Standalone GNPA was at 2.55% and NNPA was at 0.64%. Proforma GNPA: 2.70%; NNPA: 0.74.
9. COVID-19 provisioning as of 30th Sep 2020 was at Rs 1279 Cr.
10. Standalone total assets grew 18% YoY to Rs 3,74,765 Cr.
11. Average SA size rose 32% YoY while the average CA size rose 10% YoY. Cost SA was down 150 bps YpY to 3.87%. LCR was >170%.
12. Consolidated CAR was at 24.5% with tier 1 capital at 23.9%.
13. Consolidated NIM was flat YoY at 4.58% vs 4.56% last year.
14. The book value per share was at Rs 399 per share.
15. Overall NNPA for consolidated was at 0.7%
16. AUM of Kotak Mahindra Life Insurance grew 18.5% YoY to Rs 35,980 Cr.

17. Kotak securities saw market share shrink to 7.7% in H1 vs 9.4% last year.
18. Kotak AMC saw market share rise to 6.9% vs 6.6% a year ago.

Investor Conference Call Details:

1. The total provisioning on the credit count is now 177% of our total net NPS.
2. The bank has moved to the lower tax rate from Q2 onwards.
3. The distribution and syndication income showed a growth of 50% on a Y-o-Y basis and 19% on a QoQ basis.
4. General banking fees were down 15% YoY due to lower volumes in various segments.
5. The bank continues to see a surge in customers' usage of digital channels with a preference for mobile in Q2.
6. In mobile banking, Kotak has a 5.1% share of the mobile transaction value in the industry.
7. Digital payments saw an increase of 73% YoY and the average ticket size in both UPI and payment gateway transactions has increased Y-o-Y.
8. The bank launched 2 new credit card variants between September and October for the mass affluent segment and a secure credit card for customers who do not have a stable footprint.
9. Collections are coming back to normal and were aided with the increased means through digital transactions.
10. The bank also launched MyImage Card for customers who can apply for and download the images on their debit and credit cards.
11. The bank's agribusiness portfolio comprises SMEs involved in primary and secondary processing of agricultural commodities and is mostly based out of non-urban locations. This business has seen good growth due to good crop harvest and collections have been above normal levels.
12. The bank overall contributed 74% of the post-tax profits.
13. In the life insurance business, the gross written premium for the second quarter grew by 10% YoY and the single premium business grew by 15% YoY. The individual APE new business payments for the first half grew by 2% Y-o-Y against the private industry de-growth of 11%.
14. Digitization has been a big focus area for life insurance for increasing efficiency and enhancing customer experiences.
15. The broking industry saw record volumes for average cash turnover in Q2 at Rs 62,000 Cr per day vs Rs 35,000 Cr a year ago.
16. The daily options market turnover for retail broking has also risen 40-50% YoY.
17. Kotak Mahindra Capital Company saw many marquee transactions like QIPs for ICICI, HDFC, Mahindra Finance, and YES BANK, Phoenix Mills, IPOs for CAMS, etc.
18. The company has also been contracted for the restructuring of Motherson Sumi and subsidization of Tata Motor's passenger vehicle business.

19. The management states that the deposit rate cut was not for short-term financial gains but as part of a larger strategy for sustainable growth of earnings of the firm while preserving the deposit franchise.
20. The management has stated that consumer behaviour has not been affected too much by the rate cut and the attrition rate has been normal.
21. The management is confident about the asset quality of the company. It is looking to concentrate on urban advances as employees with lower salaries in urban areas have been the worst-hit financially from COVID-19. Thus the company has also dropped its unsecured credit card book and unsecured personal loan and business loan book by design.
22. The company will continue to spend money on building the franchise (mostly on digital) and taking cost on risk.
23. Kotak is currently at 2% to 2.5% of the total banking sector market share.
24. Emphasis on digital and tech has been the primary driver for the bank in expanding the customer base without significantly expanding the branch network.
25. The management maintains that the primary focus for the bank is on execution and to approach growth through the route of customer acquisition and engagement and selling.
26. In commercial vehicle and construction equipment, Sep collections are close to the pre-covid level.
27. In the unsecured retail business, collections are improving but they are far from the pre-covid level.
28. Overall collections for the bank are at Feb levels near 95%.

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 Q2FY21 with more than 32% growth in savings deposits and has gotten 17% YoY growth in NII despite slightly lower advances. The company has done well to keep its books resilient and focus on the development of the liability side during the pandemic. It has also seen a very good rise in the digital channels with more than 73% YoY rise in digital transactions 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	524	535	-2.06%	417	25.66%	941	1136	-17.17%
PBT	95	90	5.56%	74	28.38%	169	212	-20.28%
PAT	62	58	6.90%	49	26.53%	111	137	-18.98%

Detailed Results:

1. The company had a modest quarter with a 2% YoY drop in revenues and a 7% YoY rise in profits.
2. H1 revenues and profits were subdued due to the poor performance in Q1.
3. The company also saw a volume decline of 2% YoY in Q2.
4. EBITDA margin for Q2 improved 93 bps YoY to 24.6% in Q2.
5. Gross realizations rose 1% YoY to Rs 4629/ton.
6. EBITDA per ton rose 5% YoY in Q2 to Rs 1137.
7. The company had Zero Lost Time Injury (LTI) and Fatality.
8. Dependence on-grid power decreased to 60%.
9. The cash & cash equivalents for the company was at Rs 572 Cr as of 30th Sep 2020.
10. The company maintained a negative working capital.
11. Mycem power volumes were up 20% YoY in Q2. It formed 13% of trade volumes.
12. The company has provided the following points in its outlook for the near future in FY21:
    1. The expectation of further improvement around/post the festive seasons.
    2. Steady recovery in IHB segment esp. in rural areas, labour returning back to urban areas as well.
    3. Liquidity crunch in the market likely to continue in the near future.
    4. Input raw materials may have to be sourced from longer leads.

Investor Conference Call Highlights:

1. The company has improved its road share to 49% which is up 5% YoY.
2. The company is aiming to bring up the contribution of the premium brand Mycem power up to 25% of the total volume share.

3. Trade sales are targeted to be kept in the range of 85-90% of total sales.
4. The company's long term target is to be making carbon-neutral concrete by 2050.
5. The company is also looking to launch a new product called Greencem. HCIL is aiming to become the first cement company in the world to launch a cement product with a green label.
6. Energy prices are not expected to increase. RM costs remain a challenge and if they do not soften, the company may be forced to raise its prices to cope with firm RM costs.
7. The management states that although volumes have not seen too big of an upsurge, the company will still focus on maintaining brand image and will not be pushing for indiscriminate volume expansion.
8. The company has maintained its market share in Central India of 9.8-10% and is expecting this figure to remain stable for the near future.
9. Total Savings on annual basis has been Rs 40 Cr so far from WHR (Waste Heat Recovery).
10. Pet coke prices are currently high and it would be better for the company if pet coke prices come down.
11. Demand for govt projects is strong, especially from UP. Around 60-62% of demand from retail outlets is used for making homes. There has been a very massive drop down in the builder segment. There is a lot of unsold inventory stuck in the market. And thus property prices have corrected almost 20-25%.
12. Reverse migration of labour towards cities has started and work speed is slowly rising. The management expects to have similar volumes in Q3 & Q4 as it did last year.
13. The management has clarified that although the company saw volume decline in Q2, it was preferable to do so than to give out more products on credit and increase chances of it converting into bad loans as there is a severe liquidity crunch going on in the builder space.
14. The company is conducting environmental studies at the proposed Gujarat location currently.
15. The company is planning to lend Rs 150 Cr to Zuari as a term loan at a fixed interest rate of 7.5% for 2 years. Zuari has borrowed the amount to partially finance its WHR unit which costs around Rs 230 Cr. The company expects to earn around Rs 24-25 Cr from this transaction. The transaction is expected to be completed by 31st March 2021. It is yet to be initiated.
16. The company currently has a MAT credit of Rs 85 Cr which is expected to run down in the next 1.5-2 years.
17. The company is operating at close to 80% capacity utilization. At current resources, it can operate at up to 90% utilization. The company does require additional trucks in its logistics if it is looking to increase its utilization further.
18. The management has reiterated that it is only providing the product to those builders who pay an advance payment and only will then supply the material.
19. Around 20% of the market is expected to be stretched currently.

20. October is expected to be soft for the industry due to the high number of holidays but it is also the month when price increases are typically taken in the industry. The company has also increased its prices in the month of October.
21. The company has managed to reduce freight costs despite rising diesel prices in the quarter.
22. Most of the pet coke for the company is procured domestically for the company. The management has stated that due to the current high price of pet coke, its consumption remains low and it will only be able to come back once the price drops back to Rs 60-65. Till then the company will look to be dependent on thermal coal.
23. There is indeed some supply disruption going on in the market with lower-priced brands selling products with a price differential of almost Rs 40-80 per bag from top brands.
24. Looking at costs in Nov and Dec, the company is looking to hike prices in both the upcoming months. The management has stated that if the demand post-Diwali shows some improvement in price realization then the quantum of price increase will be lower than expected.
25. The price hikes in Oct have added to an increase in realizations of Rs 50/ton.
26. The management has stated that it will take at least 3-3.5 years to set up the Gujarat plant.
27. In terms of realization per ton, the company earns around Rs 10-12 per bag from the premium cement sales after all discounts and other things are considered.
28. The drop in interest costs has been due to the company paying back a tranche of NCDs last year.
29. On 1st October, the company had increased its premium on Mycem Power by Rs 5.
30. In terms of power, 60% is from the grid, 19-20% is from renewable sources (considering WHR as renewable) and the rest is from third parties.
31. The software for e-commerce sales should be ready by FY22 according to management.
32. According to management, the company is sitting on almost Rs 700 Cr of cash reserves currently. The company is looking to build it up to Rs 1000 Cr to be able to finance the Gujarat plant in the near future.
33. The company is also looking to improve its clinkering capability so that it can get a better quality of clinker to improve further. The company is using a max of 35% fly ash only to make clinker.
34. On an average basis, the company will be using pet coke and thermal coal at a ratio of 50-50 if pet coke prices remain at current levels.
35. There isn't much Capex expected in FY21 & FY22 as the company is looking to build reserves and get all required approvals before starting on the Gujarat plant.
36. The management expects to see good volume growth in the next 1 to 2 fiscal years.
37. Most of the debottlenecking are over. Only some of the clinker is left out which on completion is expected to add up another 200,000 to 250,000 tons of clinker.

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 but volumes taking a hit in Q2. The company has done well to maintain its EBITDA/ton at high levels despite costs for fuel rising. 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. The builder community is going through a severe cash crunch right now which is also affecting cement consumption. It remains to be seen how long it takes for demand to come 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	10165	9446	7.61%	7670	32.53%	17835	20640	-13.59%
PBT	1778	951	86.96%	1172	51.71%	2950	2841	3.84%
PAT	1209	639	89.20%	806	50.00%	2014	1906	5.67%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	10489	9762	7.45%	7913	32.55%	18402	21302	-13.61%
PBT	1465*	890**	64.61%	1157	26.62%	2622***	2783	-5.79%
PAT	899	579	55.27%	796	12.94%	1695	1860	-8.87%

*Contains exceptional item loss of Rs 336 Cr
**Contains exceptional item loss of Rs 157 Cr
***Contains exceptional item loss of Rs 493 Cr

Detailed Results:

1. The company had a decent quarter with consolidated revenues rising 7.5% YoY and PBT & PAT rising 65% YoY and 55% YoY respectively.
2. Effective volumes grew 20% YoY in Q2 while operating EBITDA/ton increased 30% YoY to Rs 1387/ton.
3. Operating margins improved 6% YoY to 27%.
4. Capacity utilization in Q2 was at 68% in Century. Increased pet-coke usage to 74% vs 73% in the last quarter. Variable Costs reduced by 12% YoY.

5. In UltraTech Nathdwara, the plant is working at 60% capacity utilization. Production costs reduced by 17% YoY while EBITDA/ton was consistent at > Rs 1500/ton.
6. The company reduced Rs 2519 Cr of net debt to Rs 12132 Cr as of 30th Sep 2020.
7. Consolidated volume growth was at 19% YoY in Q2 and it fell by 3% YoY in H1.
8. The penetration in rural markets has also increased by 5% YoY. Blended cement sales increased by 3% YoY and now account for 71% of sales.
9. Fixed costs were brought down by 14% YoY.
10. Changes in operating costs in Q1 is as follows:
    1. Logistics: Up 1% YoY to Rs 1140/ton. Accounts for 33% of the total operating costs.
    2. Energy: Down 9% YoY to Rs 937/ton. Accounts for 27% of total operating costs.
    3. Raw Materials: Up 3% YoY to Rs 505/ton. Accounts for 15% of total operating costs.
    4. Overall variable costs reduced by 6% YoY in Q2.
11. Diesel Price higher by ~14% YoY which led to logistics costs rising 1% YoY.
12. Energy cost reduction of 9% YoY mainly due to an increase in green power from 9% last to 13% currently.
13. Absolute EBITDA grew 35% YoY. Consolidated EBITDA margins improved 6% YoY to 28% in Q2FY21.
14. Net debt to EBITDA was at 1.11 times and net debt to equity was at 0.27 times.

Investor Conference Call Details:

1. Over 50% of the rural districts have shown growth over their past few performances. Migrant Labour is coming back to cities.
2. Tier 1 towns are seeing opening up of real estate markets.
3. Housing demand is definitely showing green shoots with cheap housing loans driving the demand.
4. Eastern and Central markets are running at near full capacity with solid demand.
5. Due to pet coke prices rising to $100, most of the cement industry is switching to alternate high calorific value coal.
6. Century Cement has been fully integrated. The company is now looking to invest in 20 megawatts of WHRS at Maihar and Manikgarh, 2 of the units of Century, which will result in further cost reduction and improvement in EBITDA/ton. These projects are scheduled to get commissioned by March '22.
7. Most of the company's capex plans, in West Bengal, Bihar, and the greenfield Cuttack plant, have gotten delayed due to COVID-19. These are expected to be completed in FY22.
8. The management expects the company to reach debt to EBITDA of 1 time by the end of FY21.
9. Despite industry decline, the company has managed to increase its sales volumes mainly due to better internal coordination and the ability to service all orders that came in for them.
10. The management expects the company to maintain a higher growth pace than the industry going forward.
11. There was a reduction of 14% in overhead costs in H1. Around 4% of this is expected to go away as it represented ad spending which will increase as compared to Q1 when all marketing activity was suspended.
12. The company is gaining market share in white cement. Total revenues from RMC were about Rs 434 Cr. White cement was around the same figure. The management has stated that it is difficult to gauge market share in RMC due to widespread market fragmentation.
13. The company will not be doing higher dividend pay-out as the management expects the cement industry to grow fast and the company will require additional cash to be able to outpace industry growth.

14. The company I seeing improvement in Gujarat demand after a very long time.
15. The company has already started using international coal as a substitute for expensive pet coke.
16. The company is not reducing the credit period but it is also not allowing any extra slack in it.
17. The management expects to maintain negative working capital in H2 as well.
18. The management is confident that it will not see any shortage of clinker in the East India units and can even resort to transporting volumes from South units to cover additional demand if the need arises.
19. Capacity utilization had risen to 75% in the month of September.
20. White cement volume in Q2 was at 330,000 tonnes.
21. Capex spending in H1 was at Rs 450 Cr. The total capex for Fy21 is expected to be at Rs 1200-1300 Cr. The reduction from the targeted Rs 1500 Cr is mainly due to labour shortage at most project sites.
22. The company will start work on the 3.5 million tonne Pali unit next year. this unit is expected to be commissioned by Oct-Dec '22.
23. The rural market has helped pick up much of the slack from the decline in urban markets for the company.
24. The management expects volume growth for the industry to be positive despite the massive decline in Q1.
25. The company is expected to have capacity utilization of around 80-85% in October.
26. The West Zone has been the lowest growth market YoY for the company. The company has managed to see some marginal growth in the South zone despite industry decline in the region.
27. 71% of volumes for the company come from retail. Around 35-40% of these volumes come from rural markets.

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 a fall in volumes in Q1, the company was able to bounce back quickly and achieve volume growth in Q2 despite industry decline. The company is doing well to focus on cash conservation and cost reduction after the disruption caused by COVID-19 while maintaining its pace of debt repayment. 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

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	130	126	3.17%	62	109.68%	192	274	-29.93%
PBT	14	5	180.00%	-7	-300.00%	7	21	-66.67%
PAT	12	4	200.00%	-7	-271.43%	5	15	-66.67%

Detailed Results:

1. The revenues for the quarter were up 3% YoY.
2. PBT & PAT showed tremendous improvement in Q2. They were up 180% and 200% YoY
3. The company had its highest volumes sold in a quarter in Q2.
4. The operating EBITDA margin improved 883 bps YoY to 12.31% in Q2.
5. H1FY21 performance was still down from H1FY20 due to the poor performance in Q1 from the lockdown.
6. The company has completed all Phase 1 projects- 3 years Capex Plan of Rs 100 Cr (FY18, FY19, and FY20). The benefits of cost reduction and enhanced capacity have started accruing.
7. The new capex plan for the company is Rs 130-140 Cr starting Oct 1, 2020, to 31 Dec 2021. These funds are for XNBR Latex for Gloves in Valia and other de-bottlenecking, efficiency, and EHS projects across both plants.

Investor Conference Call Highlights:

1. The process for the anti-dumping petition from the company is still going on.
2. Almost all of the company's end-user industries have seen a good rebound post lockdown except for construction.
3. The management has stated that a principal reason for the company's growth and performance in Q2 is XNB Latex. Since demand for the product was very strong, the management decided to invest some money and make its existing facilities flexible to make XNB Latex which helped in the end.
4. The volume growth for Q2 has been 18% YoY. The growth in value terms is much less as RM prices are subdued as compared to last year.

5. Another good reason for the growth & margin expansion in Q2 was the pent-up demand. The launch of a few new products also helped expand the margins.
6. The revenue mix between latex and XNBR is at 50-50 currently.
7. The management expects volume growth to carry on in Q3 as well while realizations can also go up once RM prices come up.
8. The new project of XNMB Latex for Gloves is expected to cost around Rs 100 Cr and is expected to yield Rs 300-325 Cr of revenue. As capacity rises, investment per tonne is expected to go lower and lower in the future.
9. The capacity after the proposed expansion is at 40,000 tons for XNBR Latex for Gloves.
10. The company also has plans for expansion of the core NBR line for Rs 150-180 Cr in the next 15 months.
11. The maintenance capex for the company is at Rs 10-15 Cr per year.
12. One big uncertainty that the company faces while executing any capex project is the environmental consent which may get delayed more than expected due to COVID-19.
13. NBR remains a challenging space for the company due to the dumping by international players in the absence of any anti-dumping measures.
14. NBR contributes to 30-35% of the company's revenues. The company faces almost no local competition in this segment.
15. High styrene rubber contributes to 12-15% of revenues. The company faces low competition locally but has a few international competitors in this space.
16. Apcotex is the only maker of XNB Latex in India. Its main competition is international makers, most of which are based in Asia.
17. The management has stated that the latex market is less commoditized due to demand for specialty products which increases the stickiness of customers.
18. But for rubber products, the market is essentially commoditized where price a principal factor and customers may work with a product that is not the best quality if the prices are good. These are the segments where there is significant dumping by international players who may be selling at 15-30% lower prices than local sustainable levels.
19. The debottlenecking of the NBR plant has increased its capacity from 15-16 thousand tons to 21-22 thousand tons.
20. The debottlenecking of the 55,000-ton latex capacity is still going on and is expected to increase the current capacity by 20%. By the end of 2021, the company expects to have a capacity of above 70,000 tons in latex.
21. XNB latex is currently at 10% of sales.
22. The management has refrained from providing any margin guidance as it is still too early to tell whether the current demand is sustainable and how RM prices will fare in the future.

23. The company is looking to target margins of near 15% for sustainable good growth.
24. EBITDA per ton has also improved YoY along with EBITDA margins.
25. Inventory levels have gone down in H1FY21 as compared to Q4FY20 as a lot of product dispatch was held up in March due to the lockdown which led to an inventory pileup.
26. The management is not worried about the total dependency on imports for 2 of its raw materials as it has multiple international suppliers for each of them which can be supplied through multiple routes.
27. The year so far has been challenging for Apcobuild as the whole construction industry has been very slow in the last 6 months. The company is currently focused on building the brand slowly and is even outsourcing some products to complete the set of product offerings under the brand.
28. Although RIL has started making NBR, the management feels that the NBR market is not big enough for such big companies to get attracted.
29. The company has reduced the number of grades in NBR and is focusing on customer approval and quality. It has also gotten more approvals than last year and has seen capacity utilization increase due to improvement in quality.
30. The export contribution was at 16-17% of sales in H1.
31. Exports in the gloves and carpet segments are expected to improve in the near future.
32. There is still uncertainty about Q3 due to the announcement of lockdowns in major EU countries.
33. The industry shift from natural latex to nitrile latex for gloves has been on the cards for a long time and the immediate surge in demand due to COVID-19 has only accelerated this shift. The demand for gloves and PPE has also increased a lot since COVID-19 and is expected to be sustainable as no one wants to face any critical shortage of protective equipment in the future as it happened at the start of COVID-19 in almost all countries.
34. The company is looking to target 3-4% of the world market in gloves. The management expects XNB Latex for gloves to contribute to 50% of sales by FY23.

Analyst's View:

Apcotex is one of the very few synthetic rubber makers in India. The company had a very good quarter with an EBITDA margin expansion of more than 800 bps and its highest ever quarterly sales volumes. Exports were encouraging but the domestic demand has bounced back well for the company. The company is now focusing 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 while servicing current demand with some of its machines that have been modified to make XNB latex for gloves. The antidumping petition by the company is still pending approval and this has caused the management to maintain its 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 whether the current margins and demand profile remains sustainable. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	488	456	7.02%	362	34.81%	850	926	-8.21%
PBT	78	64	21.88%	46	69.57%	124	121	2.48%
PAT	58	63	-7.94%	34	70.59%	92	100	-8.00%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	723	650	11.23%	608	18.91%	1331	1316	1.14%
PBT	106	68	55.88%	70	51.43%	176	144	22.22%
PAT	82	67	22.39%	56	46.43%	138	120	15.00%

Detailed Results:

1. Consolidated revenues grew 11% YoY in Q2.
2. EBITDA for Q2 grew 41.2% YoY while PAT grew 22% YoY. EBITDA margin improved 370 bps YoY to 17.4% in Q2.
3. Fatty alcohol prices went up to $1228/MT from $1089 in Q1 and $1065 last year.
4. Volume growth in different geographies in Q2FY21 is as follows:
    - India: Up 27% YoY
    - AMET: Up 6.1% YoY
    - Rest of the World: Down 4% YoY
5. In Q2, revenue growth in the performance surfactant division was 11.3% YoY while specialty care products grew 11.6% YoY. Volumes for the PS division grew 15.3% YoY while SCP division volumes grew 2.1% YoY.
6. The company had its first-ever quarter with PBT above Rs 100 Cr.

7. Closing cash and cash equivalents in Q2 was at Rs 61.7 Cr.
8. The company currently has 77 approved patents and 13 are under application.
9. EBITDA/Ton in Q2 was at Rs 20,006 vs Rs 15,624 last year.

Investor Conference Call Highlights

1. According to the management, demand for essentials remains fairly strong, and the masstige category now seems poised to make a comeback.
2. The margin appreciation was contributed to by the shift in product mix, increase in capacity utilization and reduction in other expenses.
3. The management continues to maintain EBITDA margin guidance of 15-17%.
4. In H1, the new age preservatives have been launched.
5. The company is setting up Capex and the site will go inline from Q1FY22.
6. The trajectory of EBITDA per tonne shall remain hinged on the mix between performance surfactants and specialty products.
7. Capacity utilization in Q2 was at 71.3% and it was 64.4% in H1.
8. The company has also been able to save on other expenses of travel and others in Q2 due to COVID-19.
9. Most of the growth in Q2 has been led by regular sales according to the management.
10. The management expects the momentum in Specialty care to continue in the coming quarters as discretionary spending comes back to normal.
11. The big change in SCP revenues despite modest volume growth in the segment was due to the newly launched new age preservatives and mild surfactants brands.
12. The company's tier 3 customers are seeing good growth and now contribute to 36% of total sales vs 32% previously.
13. Around 3,000-4,000 tons of volume is expected to have come from pent up demand from Q1.
14. Egypt accounts for 1/3rd of AMET volumes and has grown 2-3% QoQ. This was normal as it was not affected in Q1 at all.
15. The company expects to commission certain CapEx projects by the first quarter of next year, which will also progressively add to its margins and EBITDA per tonne.
16. Oleochemicals contribute to 70% of RM consumption of the company.
17. Tier 1 customers will give Galaxy a one-month firm plan and a directional plan for the next month. This will be kept rolling with different numbers. Any increase or decrease in demand is visible to the company with a notice of almost 2 months.
18. The current Capex plans are the same as before at Rs 130-150 Cr for its multipurpose plant at Tarapur and expansion of Specialty Ingredients plant at Jhagadia.

19. The delay in commissioning in these 2 projects has been mainly due to COVID-19.
20. 67% of revenues are from exports.
21. The management has stated that the company is mainly innovation-driven and is not focussing on import substitution.
22. R&D spend is about 2% of revenues.
23. The company has not seen business development slow down at all due to the travel restrictions and has seen improvement in customer engagement in general.
24. The company is indeed expecting good growth from the new product launches as these products were developed as the company felt the need for these products such as the demand for sulfate-free formulations and transparent sulfate-free formulations and nontoxic preservatives.
25. The absolute cost savings from COVID-19 was at Rs 4-5 Cr.
26. The expansion in the USA was very timely and has helped Galaxy make progress in the high-end specialties segment there.
27. Most of the company's orders are contractual for 3-6 months and thus prices are fixed for the duration of the contract. For spot customers, price changes due to RM cost changes are instantaneous.

Analyst's View:

Galaxy Surfactants is one of the most consistent specialty chemical makers in India. The company has done well to achieve good sales volume & profit growth and has managed to maintain EBITDA/ton due to increased utilization and launch of new products. The company saw revenue growth despite modest volume growth mainly due to a rise in fatty alcohol prices and demand for new products. The company has seen good growth coming from India as demand comeback was strong for all tiers of customers. The company is expecting good demand for its products going forward due to the renewed focus on health & hygiene and the new products of nontoxic preservatives and mild surfactants. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1102	918	20.04%	972	13.37%	2074	1684	23.16%
PBT	250	169	47.93%	172	45.35%	423	301	40.53%
PAT	209	123	69.92%	132	58.33%	341	224	52.23%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1191	918	29.74%	1068	11.52%	2260	1685	34.12%
PBT	263	169	55.62%	190	38.42%	453	302	50.00%
PAT	218	123	77.24%	146	49.32%	363	225	61.33%

Detailed Results:

1. The company witnessed good revenue growth of 30% YoY in consolidated terms in Q2.
2. The profits for the company were up for Q2 with a rise of 70% & 77% YoY respectively in standalone and consolidated terms.
3. The EBITDA for the company grew 45% YoY in Q2 and EBITDA margin improved 298 bps to 24%.
4. Fixed overheads increased by 20% YoY in Q2.
5. Exports saw a growth of 25% YoY in Q2 while domestic sales grew 33% YoY in the same period.
6. H1 Performance was similarly stellar with 34% YoY revenue growth and 61% YoY PAT growth.
7. Exports saw a growth of 24% YoY in H1 while domestic sales grew 54% YoY in the same period.
8. The company now has a surplus cash position of Rs 98 Cr as of 30th June 2020.
9. The company saw the highest ever POG of Nominee Gold. It launched Londax Power (insecticide) and Shield (fungicide) in Q2.
10. 40+ products at various stages of the R&D pipeline.
11. 18 new patent applications were made in H1 including intermediary of COVID-19.

12. Continue to supply Pharma intermediates on a commercial scale with more than 10+ pharma products at various development stages in R&D.
13. The company maintained an order book of > $1.5 billion.

Investor Conference Call Highlights:

1. The 2 newly launched brands of Londax Power and Shield are aimed at the rice crop.
2. A favourable product mix was responsible for better EBITDA performance during this quarter.
3. Isagro has seen good uptake due to fruits, vegetables, and plantations recouping well after the end of the lockdown.
4. Isagro's contribution to the overall consolidated growth of PI has been around 11% in H1.
5. The management maintains its earlier guidance of >20% revenue growth in FY21.
6. The company has a couple of multiproduct plants are under construction currently. It is also looking to enhance the utilization of growth plans and some possible acquisitions.
7. The company is aiming to keep the order book at near current levels of $1.5 billion as it helps maintain revenue visibility for 3-4 years. It is a testament to the company's growth that despite stellar growth in the past 4 quarters, the order book size has remained nearly the same.
8. The company's objective is to fully deploy the QIP funds in the next 5, 6 quarters.
9. The management aims to keep the company growing on the back of its strong technical abilities and its IPs.
10. The management has also mentioned that as the company is growing at 30-35%, the operating leverage is getting reflected in an improved EBITDA margin.
11. The management is confident that there will be at least 2 to 3 new products that PI plans to launch every year for the next 3 to 5 years. Along with the company's focus on strengthening the quality of the business from channel management and rising emphasis on digital marketing, the company should be able to keep on expanding on the margins of the domestic business.
12. The tax rate for Q2 was at 19.3%.
13. The capex plan for FY21 is at Rs 550-600 Cr. Around Rs 100-150 Cr of this is expected to carry over to FY22.
14. The MEIS for the company has fallen to Rs 2 Cr in Q2 from Rs 17-18 Cr last year. The company is waiting on the details of the alternative scheme announced by the govt.
15. The company is looking at insight opportunities where it can easily deploy INR 3,000 crores which is expected to be generated as cash in the next 18 months and sustainability generates returns better than what it is doing today.
16. The MPP getting commissioned this year has gotten delayed due to COVID-19 and is expected to be commissioned by the end of the year or Q1FY22.
17. The capex for next year is expected to be around Rs 400-500 Cr.
18. The management expects the concentration risk both in terms of customers and in terms of products will be reduced over time. With the diversification into pharma and other specialty chemical areas, this concentration risk will reduce even further.
19. The company does not have any current capacities for making the 10 pharma intermediates under R&D and is looking at possible acquisition targets that will help the company address this gap and bypass the requirement of building assets and getting regulatory approval.
20. The current demand scenarios are expected to sustain in the medium term at least for the company according to the management.

21. Most of the pharma intermediate opportunities for the company lie in already commercialized products. The key technological differentiation the company is aiming at is improving the quality or the cost or other parameters.
22. In CSM, the company has commercialized 1 product in Q2 and si aiming to do so for a few products in H2.
23. The management is confident that in the next 1 or 2 years, PI will be able to enhance the capacities without really putting in capital.
24. Londax Power is actually a product inherited from PI Kumiai, which they had acquired from DuPont. It is an existing brand that has a very strong brand position in certain markets in both South and East of India in the rice crop.
25. The shield is an in-house R&D innovation of an existing molecule with a new innovative formulation that has been specifically launched for disease control in rice.
26. Both of these products are generic products.

Analyst's View:

PI Industries have been one of the most consistent performers in the agrichemicals business. The company saw a phenomenal performance in Q2 on the back of normal monsoons, the addition of Isagro, and the focus on increasing the quality of channel management and digital marketing. The company was able to successfully raise Rs 2000 Cr through QIP. The company has raised enough funds to be able to directly acquire entities that will immediately give the ability to start manufacturing those products which they are researching but do not have any manufacturing capacity for. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	396	382	3.66%	332	19.28%	727	765	-4.97%
PBT	39	43	-9.30%	33	18.18%	72	107*	-32.71%
PAT	28	43	-34.88%	23	21.74%	51	88	-42.05%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	431	426	1.17%	353	22.10%	781	836	-6.58%
PBT	42	47	-10.64%	28	50.00%	70	109*	-35.78%
PAT	30	46	-34.78%	18	66.67%	49	89	-44.94%

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

Detailed Results:

1. Consolidated revenues were up 1% YoY. Profit was down 35% YoY and up 66% QoQ in Q2.
2. EBITDA margin for Q2 was up 20 bps YoY to 15.8%.
3. H1 sales were down 6.6% YoY mainly due to plant shutdown during the lockdown in Q1. EBITDA margins in H1 were down only 10 bps YoY at 15.4%.
4. EBITDA for pigment business was flat YoY in Q2 at 16.3%.
5. Gross margins improved to 44.2% in Q2 vs 43.2% a year ago.
6. ROCE was at 12.8% in Q2. Debt to equity was at 0.9 times in H1.
7. Earnings per share were at Rs 7.2 in Q2.

Investor Conference Call Highlights

1. Domestic business improved 70% QoQ in Q2.
2. In Q2, the Roha plant was impacted for initial 2 weeks due to the presence of COVID-19 cases.
3. Demand in the domestic market is back to pre-covid levels since August. Raw materials have remained relatively stable during the quarter.

4. Capex outflow in H1 was at Rs 106 Cr. Out of the planned capex outlay of Rs 585 Cr in FY20 & FY21, the company has completed Rs 225 Cr in FY20. Projects worth INR 110 crores will spill over to FY22.
5. The company expects to relaunch Yellow pigment by mid-December.
6. The management expects demand to remain strong post-Diwali due to pent up demand pressure.
7. In H1, domestic sales were at 44% of total sales while exports were at 56%.
8. The planned product launches from before have all been delayed by more than 6-9 months due to COVID-19.
9. Capacity utilization in July was at 30-40% and for the rest of the quarter, it rose to 80-85% levels.
10. The revenue mix in Q2 was at 51% for domestic and 49% for exports.
11. The company reached one of its highest ever production volumes in September indicating that there is a lot of pent-up demand in the market.
12. The main concerns going forward for the company are the seasonal demand slowdown seen in the past in the industry post-Diwali and the rise of the 2nd wave of COVID-19 in export destinations in the near future.
13. The management has stated that the majority of capex is aimed at growth and there is indeed some room for backward integration projects which are expected to improve margins slightly.
14. The management continues to stress that there are good tailwinds for Sudarshan with 2 major players about to sell their business and uncertainties from creating opportunities for other players to rise up to a leadership position.
15. The management has stated that the announced export rebate by China for its domestic companies mainly affects product sales at the lower end and higher-end products do not see much impact from it.
16. The company has indeed gained a better cost position in a part of the range and it is aiming to achieve cost leadership in certain molecules and enhance this leadership through backward integration projects.
17. The company is still dependent on China for 30-35% of its RM needs currently.
18. The management has admitted that the potential in the export market is greater and the contribution of exports is expected to rise in the future.
19. The company expects to start seeing the benefits of its capex projects from 2022 onwards.
20. The company also looking to finalize capex beyond the Rs 550 Cr mentioned above and this will be finalized by the Board by March ’21.
21. After the new capex is done, the management expects asset turnover to improve to 3 times.
22. The major industries that the company caters to are coatings, plastics, printing inks, and cosmetics in that order. Printing inks and plastics is higher in India than in exports.
23. Most of the cosmetics customers are global players.

24. The company is looking to shift product mix towards higher-end applications globally, not just cosmetics, but for all other applications from the industrial side.

25. The debt level for the company is at Rs 500 Cr currently.

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 so in H1 so far. The company did suffer a bit from the plant shutdown at the start of Q2 from COVID infections. But the demand for the company products remains stable and the management expects to remain consistent due to the pent-up demand pressure. The company has a good opportunity for growth from the China substitution movement and the exit of 2 major players in the global pigments industry. 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 an 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	609	572	6.47%	485	25.57%	1094	1053	3.89%
PBT	69*	90	-23.33%	57	21.05%	1265*	1489	-15.04%
PAT	50	70	-28.57%	40	25.00%	90	118	-23.73%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	664	614	8.14%	530	25.28%	1193	1164	2.49%
PBT	175**	95	84.21%	59	196.61%	234**	151	54.97%
PAT	155	75	106.67%	42	269.05%	197	120	64.17%

*Contains Exceptional item of loss of Rs 11.25 Cr
**Contains exceptional item of profit of Rs 85 Cr

Detailed Results:

1. The consolidated revenues for Q2 were up 8% YoY.
2. Consolidated PAT saw a rise of 106% YoY on account of the exceptional item which was earned from the sale of KNR Walayar to Cube Highways.
3. EBITDA for Q2 rose 8% YoY and margin declined 87 bps to 26.1%.
4. Consolidated Cash & cash equivalents as of 30th Sep 2020 was at Rs 32.6 Cr
5. The EPC order book as of 30th Sep '20 is Rs 8554.5 Cr out of which 31% are captive HAM projects and 45% are irrigation projects while other road projects were at 24%.
6. The top 6 road projects are of Rs 3720 Cr while other projects consist of Rs 973 Cr. Irrigation projects form Rs 3861.5 Cr of the order book.
7. The order book distribution is:
    1. Arunachal Pradesh: Rs 82.2 Cr
    2. AP & Telangana: Rs 5110.3 Cr
    3. Karnataka: Rs 1112.2 Cr
    4. Kerala: Rs 9.6 Cr
    5. Tamil Nadu: Rs 2240.2 Cr
8. The net-working capital days have fallen to 44 days in Q2.

Investor Conference Call Highlights:

1. So far in H1 FY 2'21, NHAI has awarded road contracts for building 1,330 km of highways, worth INR 47,289 crore, which is 1.6x higher than 880 — 828 km awarded in the financial year 2020 and 3.5x higher than 373 km awarded in the FY '19 during the same period.
2. The NHAI has set a target of awarding 4,500 km of projects during FY '21. NHAI has plans to award contracts worth INR 2 lakh crores in the second half-year.
3. NHAI recently disclosed that the number of FASTag users in the country has crossed 2 crore landmark, registering a robust 400% growth in the year. Currently, revenue from FASTag constitutes about 78% of the toll collection.
4. KNR's average operational effectiveness this quarter stood at 80%.
5. The percentage physical progress as of September 30, 2020, for 4 HAM projects is as follows: Chittoor to Mallavaram is at 64%, Ramsanpalle to Mangalore is at 56%, Trichy to Kallagam is at 50%, Magadi to Somwarpet at 14%.
6. On October 5, 2020, KNR received a date for its 5th HAM project (Oddanchatram to Madathukulam, KNR Palani HAM project), which is worth INR 920 crore BPC.
7. The toll collection in the Muzaffarpur Barauni project was at Rs 12 Cr in Q2.
8. Client wise, 69% of the order book is from third-party clients and the balance 31% is from captive HAM projects.
9. KNR is targeting a further order inflow of INR 2,000 crores to INR 2,500 crores in the second half of this fiscal year.
10. It has also received a top challenger award and the 18th Construction World Annual Rewards in October 2020.
11. There has been a delay in the collection of dues for the irrigation projects from the Telangana Government as the government has to divert its funding towards other essential sectors and services to prioritize COVID-19 relief measures. The total exposure for the Telangana Government projects as on September 30, 2020, amounts to INR 740 crore. KNR expects the set of fast tranche payments of INR 300 crores approximately from the Telangana Government by the end of November '20 and the balance will be in the fourth quarter.
12. KNR completed the sale of a 100% stake in the Walayar-Vadakkencherry BOT project, that is KNR Walayar Tollways Private Limited to Cube Highways in Q2.
13. The management is expecting plus/minus 5% of Q2 revenues of Rs 600-700 Cr in Q3.
14. The management expects the Rs 740 Cr due from Telangana Govt to be fulfilled by Q4.
15. The company has started receiving payments for the Kaleshwaram project.
16. The progress in the Palamuru-Rangareddy lift irrigation project with Navayuga is 30%.

17. There was no impact on the execution of the Kaleshwaram lift project from the objection raised by NGT.
18. From Rs 308 Cr from Cube, around Rs 210 Cr was used to pay off outstanding promoter loans while the rest was used for working capital.
19. The exceptional item of Rs 11 Cr on the standalone level was the write off dut to fall in final value for Walayar transaction.
20. The management believes that margins should be sustainable at 17-18%.
21. The company is looking to add 3 more projects to replace the 3 HAM projects that are already at 60-70% completion.
22. There hasn't been any overhang on irrigation projects from political disputes over water in AP & Telangana.
23. The order from Hooghly, Hospet is at Rs 188 Cr.
24. In Mallanna Sagar, KNR has done 60% of the work while in Vettam it did 30%.
25. Mallanna Sagar is expected to be completed in 6-8 months.
26. The company is at 100% in terms of equipment but has only 80% of required labour and thus operational capacity is capped at 80%.
27. Ramsanpalle is expected to be completed by March while Chittoor should be done by Feb.
28. The Trichy project is stuck as a 5 km stretch is still not available and without it the project has gotten stalled. KNR expects the delay to be around 2-3 months in this project.
29. The company has done Rs 35 Cr of Capex in H1. Overall Capex in FY21 should go up to Rs 100-120 Cr.
30. The company is targeting 10-15 projects out of which, 4 projects are in Kerala, 3 are in Tamil Nadu & 3 are in Telangana. The overall size is around Rs 2000-2500 Cr.
31. The company has received rs 66 Cr from the Palamuru project and is expecting Rs 160 Cr by the end of Nov.
32. Revenue breakup was: Rs 138 Cr or 23% from irrigation, Rs 315 Cr or 53% from HAM & the rest from other EPC and back-to-back projects.
33. Interest costs in Q2 were at Rs 5.9 Cr.
34. In any new HAM project from NHAI, 40% of project cost comes as a grant before COD.
35. There are no pending receivables from NHAI currently.
36. The company is expected to follow the new tax regime in FY22 once the Mat credit gets exhausted.
37. 80% of the Hubli project is expected to be done by March.
38. Unbilled revenue is at Rs 500 Cr mostly from irrigation projects which are expected to be paid by end of Q3.

39. The equity infusion in H1 in HAM projects was at Rs 27 Cr. In H2, this figure is expected to be at Rs 240 Cr.

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 delays 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 and has been able to achieve marginal growth despite working at only 80% operational capacity. The management was expecting labour to start coming back after monsoons but COVID-19 fears have kept this issue from getting fully resolved. The company has done well to source a new HAM project and is looking to replace the 3 HAM projects that will be over in the next 6-8 months. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	233	393	-40.71%	194	20.10%	427	1394	-69.37%
PBT	-15	-5	-200.00%	-29	48.28%	-44	71	-161.97%
PAT	-9	5	-280.00%	-19	52.63%	-27	53	-150.94%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	421	623	-32.42%	262	60.69%	683	1865	-63.38%
PBT	-1	5	-112.00%	-36	98.33%	-36	96	-137.50%
PAT	3*	12**	-75.00%	-24	112.50%	-21***	77	-127.27%

*Contains negative tax expense of Rs 4 Cr
**Contains negative tax expense of Rs 7 Cr
***Contains negative tax expense of Rs 15 Cr

Detailed Results:

1. The company dismal quarter with a decline of 32% YoY in consolidated revenues while consolidated profits fell to Rs 3 Cr.
2. Operating EBITDA for Amber was at Rs 22 Cr with margin at 5.4%.
3. The management expects normalcy to return in H2.
4. ~Rs.4000 crs of RACs were being imported in India of which 70-75% consisted of Completely Build Units have been banned for import. This creates significant opportunity for local manufacturers.
5. The consolidated revenue mix changed to 64:36 from 50:50 for RAC: Components+Mobility respectively.

Investor Conference Call Highlights:

1. The ban on import of refrigerant fill RACs has created an additional opportunity of Rs 4,000 Cr for local manufacturers.
2. Amber successfully completed a QIP of Rs 400 Cr in Q2 which got oversubscribed by more than 5.5x. The money raised from QIP has been temporarily being used for paying off the debt, CapEx, working capital, and acquisition of the balance 20% stake of Sidwal.
3. The company is getting inquiries, RFQs from big global players for RACs as well as components as per the China Plus One strategy.
4. Q2 revenues for Sidwal was at Rs 47 Cr with operating EBITDA at Rs 13 Cr. H1 revenues were at Rs 77 Cr with operating EBITDA at Rs 18 Cr and EBITDA margins of 22%.
5. Q2 revenues for PICL was at Rs 17 Cr with operating EBITDA loss at Rs 0.6 Cr.
6. PICL has successfully widened its product offering from current PFC motors to BLDC motors. PICL is also in discussion with various customers to launch motors for washing machines and higher voltage motors for the commercial AC segment. It has also been approached with RFQs from various large global manufacturers based out of the U.S. and the Middle East.
7. Q2 revenues for IL JIN was at Rs 81 Cr with operating EBITDA at 7.4% vs 5.7% last year. Q2 revenues for Ever was at Rs 45 Cr with operating EBITDA at 5.9% vs 5.4% last year.
8. Inventory levels in the industry have normalized to pre-covid levels.
9. The management expects Q4 to be a positive quarter for the industry.
10. February and March is when the management is expecting a volume increase from this ban on the refrigerant air conditioner import. Largely the impact is expected to be reflected in the next financial year.
11. Volumes for Q2 were at 1.9 lac units. Capacity utilization was at 45-50%.
12. In components. The company is expecting export orders to come in from FY22 onwards as the development cycle gets completed in FY21.
13. The company's first sample will be ready to be shipped out by January and the rest of FY21 will be reliability testing and approval cycles. FY22 is when export orders should start coming in.
14. Amber has started exporting motors and heat exchangers and is talking to some customers for PCBs.
15. PICL revenue mix is 20% is exported and 80% is domestic. This ratio is expected to become 60:40 in the coming 2 to 3 years' time.
16. In commercial AC, the company has recently launched 2 new products and is on track to build up the whole portfolio of about 18 to 20 products in the next 2 to 3 years' time.
17. The addressable market for commercial AC is around Rs 6500 Cr.
18. In Sidwal, 2 tenders from DMRC, Delhi Metro Corporation for Rs 98 Cr were won in Q2.
19. The current order book in Sidwal is at Rs 350 Cr which will be delivered in 18 to 24 months' time.
20. Industry decline in H1 is expected to be at 32-33% in H1.
21. The company added 4 new large customers since the announcement of the import ban. All of these 4 had been importing 100% of their requirement earlier. These new customers will start in February onwards.
22. On the RAC export front, China and Thailand are the 2 large exporters with volumes of 65 million, 80% from China and 20% from Thailand.
23. For the PCB board for IL JIN and Ever, the company has already started getting orders and has started shipping. Mass volumes will start picking up from the next financial year.
24. Currently, around 48% of the RAC industry is outsourced with Amber having a market share of 70% in it. The overall industry is growing at a CAGR of 12% while the ODM part is growing at a CAGR of 17-18%.

25. Even today, 75% of the components are imported. The import substitution opportunity in components is around Rs 5500-6000 Cr. The addressable market for components is $ 2 billion without counting compressors.
26. 60% of component revenues came from non-AC components.
27. The long term revenues split in RACs and components is expected to be at 50:50.
28. USA & Middle East are 2 geographies that Amber is concentrating on currently.
29. The import ban opportunity in terms of volume is around 2.4 million units.
30. Of this 2.4 million, 70% was refrigerant filled of which Amber hopes to capture at least 55%.
31. Margin expansion in subsidiaries was due to lower expenses.
32. The company's goal is to reach 24% market share in the overall RAC market in India and have the rest 76% have some components in them made by Amber.
33. Amber currently has the widest range of products available in the complete room air conditioner range from starting from 0.75 ton to 2 ton in all-star categories from 1 star to 5-star and is doing inverter ACs also. On the component side, it has become a one-stop solution for all components except compressors.

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 continues to improve from the disruption from COVID-19 in the peak summer season. The demand has been steadily rising since after the lockdown. The industry is widely expected to come back to normalcy by 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 the import ban of refrigerant cooled products in RAC and the steadily rising components businesses. It remains to be seen whether there are any 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. However, the current valuation appears to be very stretched for the company.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	812	1066	-23.83%	534	52.06%	1345	2560	-47.46%
PBT	12	23	-47.83%	-44	127.27%	-32	127	-125.20%
PAT	8	13	-38.46%	-31	125.81%	-23	87	-126.44%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	908	1260	-27.94%	635	42.99%	1543	2857	-45.99%
PBT	22	54	-59.26%	-29	175.86%	-7	162	-104.32%
PAT	15	37	-59.46%	-20	175.00%	-4	115	-103.48%

Detailed Results:

1. The company had a consolidated revenue decline of 28% YoY in Q2. PAT was down 59% YoY at Rs 15 Cr.
2. H1 performance for the company was dismal due to Q1 performance. Revenues in H1 were down 46% YoY while H1 PAT was at a loss of Rs 4 Cr.
3. Carry forward order book for the company grew slightly to Rs 3019 Cr as of 30th Sep 2020.
4. Net borrowings increased to Rs 344 Cr from Rs 189 Cr a year ago. Debt to equity was at 0.44 times. Net borrowings have reduced by Rs 84.47 Cr in Q2FY21.
5. The company launched a new range of products embedded with 'Virus Deactivation Technology'.
6. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems was down 31% YoY in Q2. Order inflow in Q2 was reduced to Rs 685 Cr which was down 13.8% YoY.

7. The company won an Electrical & Mechanical works (E&M) order valued at Rs 149 Cr for 'Mumbai Metro Line III, Package UGC-03' for five underground stations from Mumbai Central to Worli, from Dogus-Soma JV.
8. The Carried-forward order book of the Electro-Mechanical Projects business was Rs 2070 Cr as of 30th Sep 2020.
9. Commercial AC business saw a partial recovery in Q2. Major orders bagged in Q2FY21 were from Greenfield Electronic Manufacturing Clusters (Hyderabad), Vijayanagar Institute of Medical Science (Bellary), Grand Hyatt Hotel (Bharuch), INTAS Pharmaceuticals (Ahmedabad), and National Mineral Development Corporation (Chandigarh).
10. The demand for retrofit and revamp solutions with Virus Deactivation Technology is robust. Major orders for products and solutions such as duct cleaning, UVC emitters, filters, and fresh air augmentation have been received from ICICI Bank, Mercedes Benz India, and Airport Authority of India.
11. In the unitary products segment, the company saw a revenue decline of 15.5% YoY in Q2. Segment EBIT was flat YoY. The company maintained a market share of 12.75% and is expecting this market to fully recover by December.
12. Commercial refrigeration business saw good recovery with good traction from pharma and healthcare segments for its Modular Cold Rooms and Medical Refrigeration Products. Demand recovery is expected to accelerate with the opening of restaurants and other unlock measures and order inflows from local and national retail chains in the Supermarket Refrigeration business.
13. The company bagged major orders in commercial refrigeration from UP Medical Supplies Corporation, Dr. Reddy's Labs, and Thyrocare in Q2. It also launched Touchless Storage Water Coolers and Bottled Water Dispenser in Q2 which are expected to gain good traction.
14. The company reached a market share of 3% in water purifiers.
15. The Professional Electronics and Industrial Systems business saw revenue fall to Rs 43 Cr from Rs 89 Cr last year. The dip in revenue and profits in Q2FY21 was on account of a large, one-time order in the data security business, executed in Q2FY20.
16. The segment continued to do well on the back of digitization initiatives in the BFSI sector.

Investor Conference Call Highlights:

1. As of September end, more than 2/3 of the job sites are available for execution.
2. The inventory pressure in the RAC division has been largely eased. The management expects the recovery momentum of Q2 FY '21 to continue in the upcoming festive season as well.
3. In water purifiers, the alkaline water purifier for the immunity-boosting campaign was well accepted by the target customers.
4. The management has admitted that some projects in the existing project's book have been slow but they do not expect any cancellations. The priority of the company in this space is to get the jobs restarted so that there is the visibility of cash flows emerging from these projects.
5. There wasn't any movement in prices in the RAC space.
6. Channel inventory for Blue Star is at 45-60 days currently.
7. In VRF, the company is #2 in the country with a market share of 19-20%. In chillers space, it has a market share of 25-30%.

8. The rise in inventory in Q1 was mainly due to business disruption and it has eased off in Q2.
9. Margin profile expectation in the Segment I space is 4-4.5% while in the Segment II space, it is at 7-7.5%.
10. In RACs, the market is gravitating towards a mass premium range of products. Blue Star is aiming to align to market requirements, specifically in Tier 2, 3, and 4 towns, and deliver products while retaining a range of differentiators around quality and brand image.
11. The split in North & South sales is even at 30-35% of sales and the company is aiming to capture more of the North zone while maintaining leadership in the South zone.
12. The company is aiming to increase the share of e-commerce in overall sales to 16-17% from the current 12-12.5%.
13. It will take at least 3-4 months for the impact of the prohibition on the import of completely-built air conditioning units without refrigerants to be fully absorbed in the market.
14. The company now makes almost 100% of its indoor units in-house.
15. The management maintains its earlier guidance of reaching breakeven in the water purifiers business in FY21.
16. The company has tapered down Capex plans for FY21 and will keep it at normal levels of Rs 90-100 Cr for F21.
17. The management doesn't see any reason for inventory management to deteriorate going forward specifically heading into the festive season.
18. The company is yet to decide on marketing positioning and extending contracts of brand ambassadors and will take the decision in the coming quarters.
19. The management has stated that the increase in margins in Segment I is not due to the reversal of ECL provision and is sustainable due to the management of operating cost structure.
20. The company has seen a reduction in borrowings of near Rs 100 Cr in Q2 and expects to continue to reduce debt in Q3 as well.

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 decent recovery in revenues and profits for Q2FY21. The major reason for this performance was the bounce back in the unitary products division and the restarting of EMP projects. The company has done well to rationalize inventory and remain prepared for the festive season. It has also seen good growth in the water purifier segment where it has already captured a 3% market share. 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 target of breakeven in the water purifier segment. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1473	1167	26.22%	466	216.09%	1939	2103	-7.80%
PBT	66	42	57.14%	2	3200.00%	69	73	-5.48%
PAT	48	38	26.32%	2	2300.00%	50	58	-13.79%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1639	1405	16.65%	517	217.02%	2156	2552	-15.52%
PBT	72	48	50.00%	2	3500.00%	74	84	-11.90%
PAT	52	43	20.93%	2	2500.00%	54	67	-19.40%

Detailed Results:

1. The company had a great quarter so far with Q2 revenues rising 17% YoY and profits rising 21% YoY.
2. The EBITDA margin for the company has fallen by 80 bps to 5.5% in Q2FY21 & EBITDA has risen 36% YoY.
3. Segment-wise Q2 Revenue performance is as follows:
    1. Consumer Electronics: Up 30% YoY (59% of current revenues)
    2. Lighting Products: Up 4% YoY (18% of current revenues)
    3. Home appliances: Up 4% YoY (9% of current revenues)
    4. Mobile Phones: Up 2% YoY (12% of current revenues)
    5. Security Systems: Down 9% YoY (2% of current revenues)

6. Reverse Logistics: Down 5% YoY (0.2% of current revenues)

4. The company had a cash conversion cycle of 0 days.
5. Net Debt was at Rs 17.13 Cr with net debt to equity at 0.03 times.
6. It had a ROCE of 26.9% and ROE of 20.7%.

Investor Conference Call Highlights:

1. Dixon hopes to achieve an ROCE of 30%+ and an ROE of 25%+ in forthcoming quarters and years.
2. LED TV revenues were at Rs 957 Cr vs Rs 738 Cr last year, strong growth of 30% YoY. Operating profit margins also expanded from 2.4% to 2.8% YoY on the back of the scale, a higher level of backward integration, the expansion of PCB capacity, and improved sales mix towards larger sizes of above 43 inches.
3. Dixon completed the capacity expansion to 4.4 million TVs including backward integration and LCM which is around 30% of the Indian LED TV market. This capacity is expected to be increased to 5.5 million units by the end of FY21.
4. The decision to increase LED TV capacity was taken due to the imports on complete LED televisions being shifted to the prohibited category.
5. The latest customer addition in the customer portfolio of LED television is Vu, which is a significant domestic player in LED television. The production for Vu is going to start in November.
6. Another new customer in the LED TV category is OnePlus. Production for OnePlus will start from Q4.
7. Dixon already has a capacity of almost 200 million to 250 million LED bulbs, which is more than 40% of the Indian requirement.
8. Dixon has expanded its capacity of battens from 250,000 in Phase 1 to 1.5 million. In downlighters, capacity has expanded from 150,000 per month to 600,000 per month and will go up to 1.2 million per month by Q1FY22.
9. Around 1/3rd of LED bulbs will be made through automation from Oct onwards.
10. Dixon presently has 40-odd models in washing machines and has an annual capacity of 1.4 million in 6 kgs to 10 kgs. In Q3, Dixon will be launching a new 10 kg model and also an electronic panel model.
11. The expansion plan for a fully automatic top loading washing machine is on track in the Tirupati location.
12. There are approximately 30 variants in the fully automatic category to start with and the annual capacity is at 6 lakhs. Commercial production should start in Q4.
13. The details of the mobile phone PLI scheme are:
    1. Domestic companies are incentivized for mobile phones of less than $200, that's INR 15,000, which is a special carve-out for domestic companies with a CapEx investment of INR 200 crores over 4 years.
    2. Eligibility will be subject to thresholds of incremental sale of manufactured goods.
    3. Incremental sales of manufactured goods over the base year for the financial year '21 is INR 500 crores, financial year '22 is INR 1,000 crores, financial year '23 is INR 2,000 crores, '24 is INR 3,500 crores and '25 is INR 5,000 crores.

4. The revised ceilings for ’21 is INR 2,000 crores, ’22 is INR 4,000 crores, ’23 is INR 6,000 crores. For financial year ’24 is INR 8,000 crores and the financial year ’25 is INR 10,000 crores.

14. Dixon is planning to increase mobile phone capacity from the current 3 million to 15-16 million in the next 2 years.
15. According to management, this PLI development should generate cumulative revenues of Rs 28,000-30,000 Cr in the next 5 years.
16. The company has already delivered 5.2 lakh cable and hybrid set-top boxes for Jio dish and SITI Cable and has generated revenues of Rs 35 Cr. It has a strong order book of almost 0.3 million per month from October onwards.
17. In medical devices, Dixon dispatched its first set of 40 machines.
18. Margin profile in set-top boxes is around 3-3.2%. in medical devices, the company expects to earn margins of 20-22%.
19. Margin profile for mobile phones was higher on account of anchor customers for 2G phones.
20. The operating margin in the mobile phone business should be at 3%.
21. The company expects Vu & OnePlus to have volumes of 0.8 million to 0.9 million TVs per annum.
22. The management has stated that the existing 3 customers should be enough for meeting the ceiling numbers under the PLI.
23. The mobile phone capacity is fungible with a 1:3 ratio for smartphones:2G respectively.
24. The company can also make set-top boxes and medical devices using the same line as mobile phones.
25. The topmost customer contributes around 30-32% of revenues and the 2nd one does around 17% of revenues.
26. Utilization in lighting in Q2 was at 81% and for LED TV it was at 78%. In-home appliances it was 80%, in mobile phones on the 2G side, it was almost 68%, and on the smartphone side, it was 35%.
27. ODM share in lighting was at 90% while in home appliances it was at 100%.
28. The management remains confident of reaching Rs 1000 Cr in set-top boxes in FY22 given the current order book. The management expects this business to have revenues of Rs 400-450 Cr in H2.
29. In AC PCB, Dixon is supplying to Daikin and has partnered with Rexxam Japan, which is a global partner of Daikin.
30. Volume growth in TVs was at 14% YoY while in lighting, the company did 571 lakh units as against 508 lakh units last year.
31. In mobile phones, volumes were at 96 lakhs phones vs 16 lakhs a year ago.
32. In CCTV, Dixon did around 6.6 lakh units as against 6 lakhs last year.
33. The LED TV business is OEM and all cost increases are passed on with no lag to customers.
34. Debtor days were almost unchanged at 58 days while inventory days fell to 28 days from 45 days. Creditor days were at 86 days from 93 days in June.
35. QoQ growth in washing machines was at 15%+.
36. 100% of the new customer business from Vu and One Plus will be coming to Dixon.

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 including Vu & OnePlus in Q2. The current quarter was good for the company despite the production shutdown during the lockdown. Demand has 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 remains confident of reaching the ceiling numbers for the PLI scheme from its existing customers. It remains to be seen whether the company will be able to expand aggressively in the medical devices space and what obstacles it will face that may threaten to halt its growth momentum in its emerging segments. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	147	144	2.08%	138	6.52%	285	287	-0.70%
PBT	26*	33	-21.21%	35	-25.71%	60	75	-20.00%
PAT	29**	39**	-25.64%	32	-9.38%	61	74	-17.57%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	160	160	0.00%	162	-1.23%	322	326	-1.23%
PBT	27*	33	-18.18%	40	-32.50%	67	83	-19.28%
PAT	46***	36***	27.78%	32	43.75%	79^	78	1.28%

*Contains exceptional item of Rs 14.5 Cr.

**Contains negative tax of Rs 3.18 Cr in Q2FY21 & Rs 5.8 Cr in Q2FY20

***Contains negative tax expense of Rs 19.21 Cr in Q2FY21 & Rs 3.59 Cr in Q2FY20.

^Contains negative tax expense of Rs 11.88 Cr

Detailed Results:

1. Sales for Q2 were mixed with consolidated revenues flat YoY, consolidated PBT falling 18% YoY & PAT rising 28% YoY.
2. EBITDA margin for Q2 was at 36% vs 27% last year.
3. Average daily turnover rose 44% YoY in the Equity Cash segment. TC revenue in the segment on the other hand rose 13% YoY.
4. Equity derivatives saw a meteoric rise of nearly 20 times in Average Daily Turnover in Q2 over Q1.
5. The currency derivative segment saw a drop in average daily turnover of 36%+ YoY in H1. This was mainly due to restricted bank timings due to COVID-19 and the merger of nationalized banks.
6. In the commodity derivatives segment, average daily turnover rose almost 6 times QoQ. BSE achieved a market share of 7.05% in "Options on Goods" contracts. It now has a market share of 31% in Gold contracts and 57.32% in gold mini contracts.
7. BSE Star MF saw MF revenue fall 25% YoY in H1 while Average Daily Value of Orders rising 34% YoY in the same period.

8. In the services to corporates segment, listing fees were flat YoY in H1 while Book Building & other Services grew 43% YoY.
9. 65 Securities got been listed in H1 FY21 as compared to 66 securities in H1 FY20.
10. In the India International Exchange IFSC, total turnover grew 38.6% YoY.

Investor Conference Call Highlights:

1. The Star MF platform witnessed a net equity inflow of Rs. 1,488 crores as against the total net equity outflow in the mutual fund industry of Rs. 734 crores in September 2020.
2. The total value of orders processed in the mutual fund segment by BSE increased by 38% to Rs. 1,43,062 crores for the half-year ended September 30, 2020; from Rs. 1,03,865 crores for the half-year ended September 30, 2019.
3. The total number of SIPs registered under this segment increased by 195% to 6.19 lakhs for the half-year ended September 30, 2020, from 2.10 lakh for the half-year ended September 30, 2019.
4. The total number of XSIPs registered under this segment increased by 9% to 11.33 lakhs for the half-year ended September 30, 2020, from 10.42 lakhs for the year ended September 30, 2019.
5. BSE has appointed 11,918 IFAs or members over the last seven months, taking their total to 68,587 as of October 31, 2020.
6. BSE will continue to offer its options trading platform free of cost.
7. EPFO is now investing 50% in Sensex vs 25% earlier.
8. The management has stated that once the company sees more liquidity in currency derivatives, it may look to start charging more transaction fees on it.
9. The company has appointed ICICI Securities Limited to advise on various options to unlock the value in BSE's StAR MF platform.
10. BSE Ebix Insurance Broking JV has intermediated issue of 6,597 policies, with premium amounting to Rs. 1.83 crores till 5th
11. BSE market share in currency derivatives is at 30%.
12. The BSE SME platform has 326 companies listed on it as of 30th Sep 2020 vs 309 last year. Total migrations to the mainboard have reached 85.
13. BSE market share in the bond listing space is at 56%.
14. Operating expenses have decreased by 12% YoY.
15. The company has no plans to institute transaction charges in equity derivatives.
16. The company is not charging anything on INX due to a similar policy instituted by NSE.
17. The management is confident that BSE will come out on top once the best price mechanism is enforced as it has more liquidity and better technology in the background.
18. The management is confident of BSE50 rising above NIFTY50 and becoming more prominent in due time.
19. The dividend policy will remain unchanged with most of the operating profit given out at the end of each year.
20. The company is still waiting on the CERC verdict for its power exchange license approval.
21. The average realization per transaction on BSE Star was at Rs 5.3 in H1.
22. Currently, BSE Star MF earns commission from AMCs directly. Going forward, Star MF will be a platform that will help AMCs keep track of the distributor's transactions and commissions. This will be a win-win situation for all.
23. The management expects volumes in derivatives to rise due to the relief from the CFTC regulation.

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 is still at the forefront of the industry in terms of technology and access to tradable products. The company is doing well to expand its strength in the equity and commodity derivatives space and continue the growth momentum of BSE Star. BSE Star continues to be the momentum driver for BSE. The company is looking for opportunities for value unlocking for BSE Star and has also appointed ICICI Securities Limited to advise on various options to do so. The company faces tough competition from other rivals especially NSE in emerging segments like INX which has forced them to maintain zero 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	79	79	0.00%	81	-2.47%	160	148	8.11%
PBT	62	61	1.64%	58	6.90%	120	115	4.35%
PAT	47	49	-4.08%	43	9.30%	90	88	2.27%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	79	79	0.00%	81	-2.47%	160	148	8.11%
PBT	58	61	-4.92%	56	3.57%	115	115	0.00%
PAT	44	49	-10.20%	42	4.76%	86	88	-2.27%

Detailed Results:

1. On a standalone basis, PAT was down 4% YoY while revenue for the quarter was flat YoY largely on account of a fall of 20% YoY in power prices.
2. Q2 saw an increase of 13.2% YoY in exchange volumes due to a rise in overall energy consumption.
3. Consumption has risen and there has been a 4.6% YoY increase in energy consumption in Sep '20.
4. The REC trading was halted in the quarter due to a stay order from APTEL (Appellate Tribunal for Electricity).
5. The day-ahead market saw good volumes on the sell-side with sell volumes at 2.2x of cleared volumes which led to a 20% YoY decline in power prices.The market witnessed an average market clearing price of Rs 2.53 per unit during the quarter as compared to Rs 3.15 per unit in Q2FY20.
6. There was a 39.5% YoY growth in open access volumes.
7. A new market segment Green Term-ahead Market (G-TAM) was launched on August 21, 2020.
8. The Real-time electricity market (RTM) traded 2,350 MU in Q2FY21. It crossed a cumulative volume mark of 3 billion units.

Investor Conference Call Highlights:

1. The company did an equity infusion into IGX and has filed an application for approval with the PNGRB, who is the gas regulator in India.
2. The total installed power capacity of India has risen to 373 GW which is a rise of 3% YoY.
3. Power demand is back to pre-covid levels in September.
4. The company filed a petition with CERC for approval to commence trade in the long-duration delivery-based contracts. CERC is expected to give its approval only after the jurisdiction issue is solved in the Supreme Court.
5. The Supreme Court hearing mentioned above has been postponed to the first week of December.
6. There are a number of issues that have hampered the expansion of IGX such as gas transportation tariff, not GST for gas which means that each state has a different tax rate, Fewer enablers in place as compared to the electricity market.
7. The demand for gas remains robust and intact. This is evident from the fact that both of the company's regasification terminals by Petronet & Shell are working at near 100% capacity.
8. The management has stated that the opportunity in the gas exchange space is much bigger than that in the electricity exchange space.
9. The company's volumes in TAM have dried up and shifted to the RTM market. Because of the competitive price offering, many state distribution agencies are also purchasing increasing quantities from the RTM platform.
10. Long-term duration contracts should not cannibalize the TAM market rather it is expected to take away volumes from the bilateral market.
11. The management has clarified that the DEEP platform is only used for price discovery and it does not enable future delivery, financial and physical settlement while in the case of the long term duration contracts, all of the background work of future delivery, financial and physical settlement is also taken care of by the platform.
12. The verdict from APTEL on REC trading is expected to come on 28th
13. The company has seen an increase of 10% in manpower costs mainly due to the annual increment impacts and larger workforce needed to operate the 24-hour market.
14. GAIL is interested in acquiring 26% of IGX but according to regulations, it can only acquire a max of 5%. The company is also looking at other strategic buyers to come in and invest in IGX and bring down its holding to the required levels.
15. The management has stated that the participation of all states has increased and particularly Punjab has been seeing more demand during this season. Large states like Maharashtra, Telangana, Tamil Nadu, and others have also seen good demand and participation as overall power consumption is rising.
16. Currently, the short-term market is almost about 11% of the total generation. IEX's share used to be around 35%-40% market share. Of this, the short-term market has risen to 50% in H1FY21.
17. The management believes that on the introduction of long-term contracts, IEX will be able to address around 70-75% of the market. On the introduction of the financial contract, which would be similar to banking, the company will be able to address the whole 100% of the power market in India.
18. The management has clarified that there is no other product available in the market which can meet the demand from the REC volumes from IEX. CERC has revised the forbearance price and the base price from Rs 1,000-2,400 to Rs 0-1,000 which is expected to attract a lot of industrial consumers and captive industries.

19. The management has clarified that NTPC is not the one selling in RTM. NTPC has to allocate all of its power to the states which in turn are allowed to sell the excess to the RTM whenever required.
20. The management feels that all the underproduced power should also be allowed to be sold on the DAM market to boost liquidity but it has not been accepted by the regulator and the government so far.
21. The management is confident that the MBED provision mandating all power transactions through the exchange for 100% of the power generators (which requires uniform power pricing throughout the country) will not be taking place in the future.
22. Open access volumes for H1 were up almost 40% YoY. This was mainly due to the low clearing price which was at Rs 2.50 vs Rs 3.15 last year. But open access is still being hampered by states through tariff and non-tariff barriers. Open access volumes now account for 23-24% of total volumes.
23. Every day almost 400 participants participate in the real-time market including institutional buyers and DISCOMS.
24. There are almost 40 participants in the GTAM market every day. The clearing rate in the green market is almost about 70%, 80% more than that rates cleared in the conventional market. Earlier states were backing down the green generators when the demand was less. Now they have a market to sell that power instead of backing down the generators.
25. The annual fees collected in Q2 was at Rs 4.46 Cr.
26. On the draft merit order dispatch from states, it says that if there is any shortfall in demand from long term contracts, it can purchase power from exchanges. That is – If the exchange clearing price is lower than the variable cost of some of the plants under the long-term contracts, the entity should back down the power from those costly plants and purchase power from the exchange.
27. The management has clarified that transaction fees have remained the same and are not dependent on the clearing price at all. The main reason for volume growth to outpace revenue growth is that REC volumes have stalled. REC contributed to almost 12-13% of revenues for the company.
28. On average, other expenses would be at Rs 5-6 Cr per quarter.
29. The management reiterates that it doesn't expect market coupling to come into place and even if it does there shouldn't be any issues for having different prices in different exchanges just like in the case for BSE & NSE for equities.
30. The entire renewable capacity is tied up under the long-term contract. So most of the participation in the GTAM is done by the distribution companies who have got surplus renewable power generation beyond the RPO application.
31. Currently, the major participants in GTAM are Karnataka and Telangana and the management expects states with large renewable capacity like Andhra Pradesh, Gujarat, Rajasthan, and Maharashtra to start participating soon.
32. Short term market has stayed at 10-11% of the total market for the last 4-5 years and the govt is working hard to increase liquidity in this space. One of the measures taken is that long-term PPAs are not happening. Another source for rising in demand for short term market will the phasing out of old plants which service long term contracts. When these plants will be phased out the unaddressed demand will have to fulfilled using the short-term market. Thus the management expects the market size of the short term to rise to almost 15% in the next 2-3 years.
33. The management reassures that even if market coupling takes place, given the company manages to defend its market share, its overall volumes will rise drastically which will ultimately be good for IEX.

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, and the launch of the GTAM market, 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 and how will the supreme verdict on the derivatives on power will go. However, the company seems to have the financial muscle to tide over the disruption of COVID and also launch new segments as it goes along. It is still very early days in the power exchange market. However, as of 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	205	222	-7.66%	176	16.48%	382	487	-21.56%
PBT	33	27	22.22%	24	37.50%	57	129	-55.81%
PAT	20	24	-16.67%	17	17.65%	36	106	-66.04%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	322	299	7.69%	289	11.42%	611	573	6.63%
PBT	61	44	38.64%	46	32.61%	107	99	8.08%
PAT	47	42	11.90%	38	23.68%	86	77	11.69%

Detailed Results:

1. The company had an encouraging quarter with consolidated sales growth of 8% YoY and PAT growth of 12% 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.
3. The company has announced an interim dividend of Rs 2 per share.

Investor Conference Call Highlights:

1. Capacity utilization in the Vietnam unit was near 100% in the quarter.
2. The margin profile has improved for the company due to the company selling more freeze-dried products from the SEZ plant which yields gross margins of around 48%.
3. The management expects the Vietnam plant to be running at nearly full capacity for the rest of the year due to the good order backlog (the large order from the USA) and expects sales volumes of at least 9000 tons from this plant in FY21. At the same time, they will also be working on increasing the capacity at this unit to 13,500 tons.

4. The management guides that optimum utilization for the new FDC unit is at 80-85%. There will be a reduction in the utilization at the old facility on yearly basis due to loss of operations for 2.5 months plus the 1 month of lockdown.
5. The management has assured that postponed orders from Russian customers from Q1 will be completed with the rest of FY21.
6. The domestic business revenues in H1 were at Rs 60 Cr which is a growth of almost 70% YoY. This includes branded and institutional business.
7. The company has already spent around Rs 5 Cr in A&P spend on branding in H1 so far.
8. The company has started supplying its first private-label small pack business to the U.S. to a large retailer.
9. The company has also renewed its existing supermarket business in the EU for the next year.
10. The growth in the branded business in H1 was almost 100% YoY.
11. The company is looking to supply several high-end products like flavoured coffees, micro-zone coffees, cold brews, and instant cold brews to its customers. The management feels there is good potential from these products due to the changing consumption pattern on the introduction of these products.
12. The management is citing an example of how the company's R&D has helped bring down the cost of cold brew products from $150/kg to $30/kg which the company sells on to a customer for $50/kg which is very attractive to the customer.
13. The management expects the value proposition of these new products to sustain for at least a couple of years due to the company's first-mover advantage.
14. The new labeling and packaging plant for small packs has gotten delayed due to COVID and is expected to be fully operational by Q1FY22.
15. The company is operating at peak capacity for small packs and is even exploring third-party packing for some products as demand is outstripping capacity for them.
16. Value-added products account for less than 5% of total sales for the company.
17. The management has stated that the scope for the single-serve pods is limited in India as there is very little usage here and it is very easy to make for every small roaster so it does not have any sustainable export advantage. The company can get into this market for India sales whenever it wants to as the market is very small.
18. The management is expecting capacity utilization of 70% or more in Freeze-dried coffee in the SEZ plant.
19. The Continental brand business accounts for almost 70% of domestic business. Institutional businesses have been slow in FY21 so far due to COVID but this segment is expected to improve going forward.
20. The volume growth for the company has been 7% YoY.
21. Spillover sales from Q1 into Q2 are expected to be around Rs 15-16 Cr.

22. The management expects to maintain flat volume growth for freeze-dried coffee in FY21 and any growth in overall volumes will be driven by growth in spray-dried coffee.
23. The management has maintained that Brazilian coffee exporters are not in competition with the company as 90% of their coffee is from Arabica while 95% of the company's coffee is from Robusta.
24. The company is targeting 10% volume growth in H2.
25. The company's distribution reach stands at 75,000 units currently and it is expected to reach 1,00,000 units by end of the year. The company wants to reach all of the 10 Lakh plus population towns and cities in India by the end of the year.
26. The management has stated that there are clear signs of in-home consumption going up for coffee in H1 so far. It remains to be seen whether this trend is temporary or permanent.
27. The company is hoping to achieve around 4-5% on average of coffee sales from all of its distribution outlets.
28. The management has stated that a large part of branded sales growth has come from existing outlets as the number of news outlets to be added has been lower than before due to COVID.
29. The management has maintained that demand for coffee remains resilient throughout the world and there has been no real reduction in consumption of coffee due to COVID.
30. The export incentive for H1 was at Rs 18 Cr vs Rs 15 Cr last year.

Analyst's View:

CCL has already established itself in the wholesale coffee space for many years and their foray into branded sales through the Continental Coffee label has been very encouraging. The company has had a good 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 and its other niche products. 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

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	12587	12526	0.49%	10399	21.04%	22985	24649	-6.75%
PBT	4274	4808	-11.11%	3128	36.64%	7403	9619	-23.04%
PAT	3232	4023	-19.66%	2343	37.94%	5575	7197	-22.54%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	13730	13497	1.73%	11404	20.40%	25134	26802	-6.22%
PBT	4565	5042	-9.46%	3436	32.86%	8001	10234	-21.82%
PAT	3419	4173	-18.07%	2567	33.19%	5986	7610	-21.34%

Detailed Results:

1. The company had a mixed quarter with a 1.7% consolidated revenue growth YoY and a fall of 18% YoY in consolidated profits in Q2.
2. FMCG-Others segment grew almost 18.4% YoY and segment EBITDA grew 66% YoY. The revenues excluding education and stationery products have grown 25% YoY. Segment EBITDA margins expanded 300 bps YoY to 9.7%.
3. The hotel business was similarly severely impacted in Q2 due to restrictions on travel and hotel operations.
4. In Staples, Snacks and Meals category, 'Aashirvaad' atta fortified its leadership position in the branded packaged atta industry during the quarter and added new products like organic atta & pulses and low sodium salt variants.
5. The company also added new products like 'Sunfeast Farmlite' Veda Marie Digestive, Nuts Digestive & Seed Digestive biscuits; 'Sunfeast Caker' Trinity and Swiss Roll cakes; Tedhe Medhe 'Bingo!' Namkeen Aloo Bhujia, Pulse Mix, Nut Cracker & Nut Mix; 'Candyman Jelimals' Immunoz; 'Aashirvaad Svasti' Lassi; 'B Natural' Nagpuri Santra & immunity range of juices and 'Aashirvaad' Organic atta, Organic Dais, Salt Proactive (low sodium salt) & Iodised Crystal Salt in Q2.

6. In Personal Care Products Business, Savlon recorded significant market share gains across sub-segments and is on course to become a 1000 crore brand in terms of annual consumer spend in FY21.
7. Under the Savlon brand, the company added many new products in Q2 like Savlon Surface Disinfectant Spray, Savlon Clothes Disinfectant Spray, Savlon Spray and Wipe, Savlon Germ protection Wipes, Savlon Hexa Hand Sanitizer, Savlon Hexa Advanced Bodywash, etc.
8. With growing preference for natural products, Nimyle, a 100% natural floor cleaner grew rapidly strengthening its market standing in the East. Nimwash, a 100% natural action product for cleaning fruits and vegetables, is also gaining consumer franchise.
9. In the Cigarettes segment, Revenues declined 14.4% YoY. The company introduced new variants like Classic Connect, Gold Flake Indie Mint, Capstan Fresh, Gold Flake Luxury Filter, Navy Cut Deluxe Filter, Gold Flake Star, Gold Flake Regal Special, Gold Flake Super Star (Super Mint), and Player's Gold Leaf Rush in Q1.
10. In the Hotels business, the company reduced its fixed costs by close to 50%. It launched 'Flavours' and 'Gourmet Couch' menus as home delivery and takeaway offerings which received an encouraging response.
11. In the Paper & Paperboard business, the company saw revenues decline 6.8% YoY. It maintained segment margins at last year's levels despite volume and pricing pressure through product mix enrichment, sharp focus on operational efficiency, and structural cost-saving interventions. ITC also strengthened the market standing in Value Added Products by 500 bps.
12. Agribusiness saw a robust growth of 12.8% YoY driven by trading opportunities in rice, mustard, coffee, and higher wheat supplies for Aashirvaad atta. Value-added portfolio (ex. aqua) comprising spices for 'food-safe' markets, processed fruits, frozen snacks etc. posted 25% growth in revenue.

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 mixed performance in the current quarter with its FMCG-Cigarettes still not recovered to pre-covid levels and the FMCG-Others doing very good and rising steadily. The company is doing well in maintaining a leadership position in many of its brands and always introducing new products under these 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	504	470	7.23%	433	16.40%	937	886	5.76%
PBT	71	60	18.33%	59	20.34%	129	102	26.47%
PAT	61	53	15.09%	50	22.00%	111	89	24.72%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	509	480	6.04%	437	16.48%	945	908	4.07%
PBT	73	63	15.87%	61	19.67%	134	109	22.94%
PAT	60	54	11.11%	50	20.00%	110	91	20.88%

Detailed Results:

1. Standalone and Consolidated quarterly revenues were up at 7% & 6% YoY respectively. (volume up by 8.5%)
2. The gross margin for the quarter increased from 46.4% last year to 47.7%.
3. Operating EBITDA at 17.3% (Rs 87.4 Cr) Vs 16.6% (Rs 78.7 Cr) in the same period last year.
4. PAT at Rs 60 Cr as against Rs 54 Cr last year, up by 11% YoY.
5. In H1, consolidated revenues were up 4.5% YoY while volumes were up 7.3% YoY.
6. Gross Margin in H1 was 47% from 47.4% in the same period last year.
7. Operating EBITDA in H1 improved to 17.5% vs 16.1% last year.
8. Category wise break-up of Q2 YoY Revenue Growth:
    1. Fabric Care: Down 11.7% (34% of sales)
    2. Dishwashing: Up 23.6% (38% of sales)
    3. Household Insecticides: Up 22.6% (12% of sales)
    4. Personal Care: Up 14.5% (12% of sales)

   5. Others: Up 17.8% (3%)
   6. Laundry Services: Down 60% (1% of sales)

9. A&P expenses to sales were flat at 5.9% in Q2.
10. WC improved to 17 days in Q2FY21 vs 23 days last year and 35 days in March quarter.
11. Net debt to equity was reduced to 0.04 from 0.26 a year ago.
12. ROCE improved to 16.8% in Q2 vs 14.4% last year.

Investor Conference Call highlights:

1. Consumers are shifting to Kirana stores and e-commerce from large format stores thus showing a shift towards the general trade channel.
2. Rural demand has been better than urban demand due to good monsoons and government support.
3. The company has been focusing on low unit packs across brands of INR 5 and INR 10 across markets.
4. Ecommerce sales have risen 1.7 times YoY in Q2.
5. The company launched a new product Exo Bioh Fresh, 100% organic vegetable and fruit cleaner, in Kerala in Q2.
6. The company has done across-the-board salary increments and incentive payouts to boost the morale of the entire organization.
7. Media spends have been increased by 6.4%, keeping in line with sales growth.
8. The improvement in EBITDA in Q2 was mainly from the improvement in gross margins.
9. The management expects demand for Ujala to start coming back slowly as schools and offices become functional.
10. The company is initiating a pan-India national rollout with TV campaigns and spends for Henko.
11. The dishwash segment has seen sustained demand from rising in-home consumption of food and a renewed focus on hygiene. The company expects the small packs in this segment to help penetrate rural markets and keep growth sustained for the segment.
12. Household Insecticides has seen good growth due to the good rainy season and consumers adopting a more cautious approach to health.
13. The increase in gross margins is expected to be sustainable as it arises from soft RM prices which are expected to remain at current levels going forward.
14. The management keeps its earlier guidance of EBITDA margins in the 15-16% range as it provides them with some room for strategic marketing for brand growth.
15. The sales breakup in the HI segment is 70-30 for coils and liquid respectively. The company is aiming to scale up on the liquid side with its unique offerings and media spending on the products.

16. The company's portfolio is currently at 40% rural and 60% urban. The management expects rural to outpace urban growth going forward.
17. The increasing awareness of hygiene and the availability of small packs should drive the acceleration of discretionary products like dishwash liquid, detergent, and personal care products in rural regions.
18. The management has stated that the company has managed to consolidate its market share in the dishwash segment mainly on the back of unique offerings like Exo being the first antibacterial and Pril Tamarind, the shift from older dishwashing methods of using ash to branded products, and focus of the company on increasing distribution in West and North India.
19. The management expects the HI segment to turn EBIT positive in the coming few quarters.
20. The trade channel breakup was 20-80 for modern trade and general trade respectively.
21. The company has Rs 120 Cr of contingent liability out of which Rs 80 Cr is a loan to its subsidiary.
22. The management expects the demand for the vegetable cleaner to remain even after the pandemic is over.
23. The contribution of low unit packs of Rs 5-10 to sales is around 25-30% and this is expected to rise going forward.
24. The company launched the Exo gel to capitalize on the strong brand of Exo and to appeal more to the value-conscious consumer with a thicker gel as compared to liquid dishwash soap.
25. The brand focus for Exo gel is mostly in the South currently as the brand is relatively known here and liquid usage is higher in the South as compared to any other area.
26. The Exo gel is to appeal to customers in the middle of the spectrum of bar and liquid who want to move on from bar but do not want to go into the liquid segment as it is expensive and can have instances of wastage happening from improper usage.
27. The margin profile for Exo bars and gels are roughly the same.
28. In distribution, the company is focusing on helping increase the productivity of sales agents through the use of data analytics and technology. They are also looking to focus on selling more lines in the same shop or improving productive calls.
29. In rural zones, the company is focusing on increasing brand coverage and adding sub stockists.
30. The company has now more than 10,000 villages under rural coverage.
31. The gross margins for coils are much lower than liquid which has margins close to the company average.
32. The company has a net cash position of Rs 30-40 Cr on a standalone basis. On a consolidated basis, it has net debt of Rs 40 Cr.
33. The company is not focusing on high numbers for sanitizers as they are low margins and it is much more preferable to focus on other products with more durable demand like the Exo Bioh vegetable cleaner.

34. The management expects the fabric care segment to come back to the growth of 5-10% once the pandemic issues are resolved.
35. The management expects to see increased investments in media spend across its brand portfolios in H2 while keeping EBITDA margins within the guided range.
36. The average tax rate for H1 was at 17.5-18%. This range is expected to continue even in the next financial year.
37. The company doesn't have any plans to increase any prices in the personal care segment.
38. The company's immediate focus will be on market share gains, leaving room for only 50 bps or 100 bps EBITDA expansion in each quarter.

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 mainly on the back of good performance of dish wash segment and increasing rural penetration. 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 a 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1136	896	26.79%	773	46.96%	1909	2116	-9.78%
PBT	203	146	39.04%	167	21.56%	369	346	6.65%
PAT	150	114	31.58%	126	19.05%	276	250	10.40%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1136	896	26.79%	773	46.96%	1909	2116	-9.78%
PBT	202	146	38.36%	166	21.69%	369	345	6.96%
PAT	150	113	32.74%	126	19.05%	276	250	10.40%

Detailed Results:

1. The company had a good quarter with a 27% growth in consolidated revenues and a 38% rise in PBT at a consolidated level.
2. PAT rose only 32% YoY.
3. Rice business saw 32% YoY growth while Health business saw 29% YoY growth.
4. EBITDA in Q2 grew 29% YoY. EBITDA margin was at 20% vs 19% last year.
5. H1 performance was modest with 10% YoY revenue decline and 10% PAT growth. This was mainly due to bad performance in Q1.
6. Net debt is now at negative Rs 227 Cr. Cash & Cash equivalent is at Rs 334 Cr. Interest Coverage ratio improved by 164%. Cash generated from operations stands at robust Rs. 750 Cr in H1.
7. Market share if KRBL was at 38.6%.
8. Bulk pack sales were down only 12% YoY in Q2 and have come back to pre-Covid levels in Sep.
9. Consumer pack sales grew 19% YoY. This growth is led by organized retail.
10. The company saw a 59% YoY growth in e-commerce sales. KRBL now has a 37% market share in the modern trade sales channels. Modern trade & e-commerce contributed to 20% of overall sales for the company.
11. Health Portfolio saw a 39% YoY growth in H1.
12. Inventory is at Rs 2021 Cr.

Investor Conference Call Details:

1. The company was able to ship the carryforward stocks of Q1 during the Q2 and resolve the backlog.
2. Rice exports were at Rs 670 Cr in Q2, a rise of 114% QoQ.
3. The management expects good exports to Iran going forward from the regime change in the USA and the Iranian Govt order to Iranian importers to clear all cargo.
4. The company has expanded its presence into 4 club stores which account for 65% of the total American market.
5. The company recently launched rice bran oil and Amaranth into international markets and the initial response has been very good.
6. The company expects Q3 to remain subdued for exports and demand to recover back in Q4.
7. The company anticipates savings on logistic costs to the tune of 50-100 bps of revenue.
8. The management has stated that going forward, the company will be looking to use the strong cash flows from H1 to bolster its inventory positions rather than deposit it to earn small yields.
9. Demand is expected to come back from Iran but it will take at least 3-4 months for things to normalize here. The management expects the full demand from Iran to come back from Q4 onwards.
10. The company has developed a whole consumer pack family for the brand Unity with products like Unity Biryani, Unity Premium, Unity Super, Unity Tibar, Unity Dubar, Unity Rozana, Unity Mogra, Unity Mini Mogra, etc. This brand is at rs 450 Cr today and the management expect it to grow to Rs 1000 Cr by FY23.
11. The management widely expects demand for bulk packs to surpass last year's levels in Q3.
12. The margins in e-commerce are more or less at the same level as traditional margins. Margin savings from the channel of 4-5% are used up for promotions and increasing online visibility. The management is targeting e-commerce to reach 10% of sales in the medium term.
13. The management has reassured that the cash generated will be utilized definitely on inventory only. This is because of the aging process which may be longer for regional rice where it can be up to 2 years. This extra-aged rice will also command a good premium subsequently.
14. The fall in domestic business in comparison to domestic peers is mainly due to the larger fall in bulk packs which is a higher % of total sales for KRBL as compared to LT foods.
15. The company is giving promotions to retailers to promote bulk packs with small offers of appliances, etc.
16. The prices for paddy in FY21 are about 25% lower as compared to FY20. The management expects export prices to shoot up as demand from Gulf countries normalizes and Iran demand comes back.
17. The current procurement price of 1121 paddy is at Rs 26-27. The same for 1509 paddy is at Rs 27-28.
18. 1121 is largely exported everywhere except the EU where the company is selling only brown rice.
19. The company is looking to buy as much pesticide-free MRL rice as possible. The difference between the normal paddy and MRL paddy is about INR 2 to INR 3 per kilo which is very high. The company is buying it up despite the high price due to the high demand from EU countries.
20. The company has will start buying new regional varieties from the last week of Nov onwards and these varieties will be sold from Nov 2021 onwards as it requires minimum aging of 1 year.
21. The anticipated rise in demand for bulk pack sales is mainly due to the current low prices for the segment. This is because these packs do not need aged rice and thus should lead to stocking.

22. The company has indeed seen a decline in sales volume in the past 5-6 years in Saudi Arabia. It is already in a search of a good distributor to replace Balsharaf but replacing it has not been possible till now.
23. Consumer price realization from small packs has remained the same as Q1.
24. The company has raised domestic consumer pack prices by 4-5% in the recent past and is passing out this 5% to the retailer for the 2 months of the festival.
25. The management is hopeful of growing 24% in H2 to match FY20 growth.
26. The target to reach Rs 8000 Cr in revenues in a year has gotten postponed by a year due to COVID-19.
27. The company is yet to receive the payment of Rs 130 Cr from the Income Tax Department.
28. The idli market in Karnataka is going good for KRBL with sales of 250-300 tons a month. Margins in the business are at >10%. The company is looking to set up its own processing and manufacturing unit in Karnataka where KRBL is already doing processing and packing for Sona Masoori regional rice.
29. The rise in other expenses is mainly due to expenses related to logistics and freight like fumigation, clearing, forwarding charges, etc.
30. The management expects EBITDA margins to remain at current levels of above 20-21% in the future.
31. In the case of the GI Tag, the company has appeals pending in IPAB and Supreme Court.

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 with consumer pack demand rising fast and bulk packs demand coming back to pre-Covid levels. The company is also expecting to see a demand resume from Iran which is good for exports. The company is doing well to reduce its dependence on working capital loans by investing its cash flows into building inventory. It has also seen good growth and rising demand in the health foods segment of >39% in H1. 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 able to reach its previous heights in Saudi Arabia and get back from the Balsharaf issue. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1695	1555	9.00%	1535	10.42%	3230	3358	-3.81%
PBT	360*	327	10.09%	319	12.85%	679	646	5.11%
PAT	313	259	20.85%	255	22.75%	568	510	11.37%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2016	1864	8.15%	1944	3.70%	3960	4058	-2.41%
PBT	342*	341	0.29%	505**	-32.28%	847	764	10.86%
PAT	273	253	7.91%	388	-29.64%	661	568	16.37%

*Contains provision for impairment of inventory of Rs 33 Cr
**Contains Exceptional item of income of Rs 64 Cr.

Detailed Results:

1. Consolidated revenues grew 8% YoY in Q2.
2. EBITDA margins were up 30 bps YoY at 19.6% for Q2.
3. PAT for Q2 rose 8% YoY.
4. The exceptional item in Q2 includes a provision against impairment of inventory for Rs 33 Cr.
5. In Q2, sales volumes were up 11% YoY.
6. The domestic business clocked sales at Rs 1,508 Cr which was up 8% YoY.
7. Traditional channels continued to outperform with rural growing ahead of urban, while in the new-age channels, strong acceleration continued in E-Commerce. MT remained subdued and CSD continued to witness a steep decline.
8. Parachute Rigids registered 10%volume growth during the quarter.
9. Value-Added Hair Oils registered a smart recovery and posted a resilient 4% volume growth. The premium segment in this division continued to face headwinds.
10. Saffola Edible Oils continued its stellar run with 20% growth in volume terms. 62% of the growth was attributed to increased penetration on account of new users and increased retention.
11. The Foods portfolio grew by 55% in value terms, riding the tailwind on health and convenience with the base Oats franchise posting a strong 45% value growth. The brand continued to attract new consumers with 60% of the growth coming from increased household penetration.

12. The company launched Kadha Mix & Golden Turmeric Milk Mix under the Saffola ImmuniVeda brand. It also launched its own Saffola Arogyam Chyawan Amrut, a value-added Chyawanprash.
13. Advertising & Sales Promotions pend was back to pre-COVID levels at 9.5% of sales.
14. Livon Serums regained traction and delivered marginal volume growth in Q2FY21.
15. 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%
16. In Q2FY21, the market price of copra was up 11% YoY and up 9% sequentially.
17. Rice bran oil was up 26%YoY. It is expected to soften from the middle of Q3 as the on-season begins. Liquid Paraffin (LLP) was down 6% YoY, while HDPE was flat.
18. During the quarter, Modern Trade declined by 12% but has started faring better more recently. E-Commerce grew by 39% and now contributes 8% to the total turnover. CSD declined by 29%, due to scaled-down operations during the quarter.
19. International business grew by 7% YoY in Q2 in constant currency terms.
20. The operating margin in the international business expanded to 23.1% in Q2FY21 vs 21.5% in Q2FY20.
21. The international revenue breakup is:
    1. Bangladesh: 49% (up 16% YoY)
    2. SE Asia: 26% (down 4% YoY)
    3. MENA: 12% (down 6% YoY)
    4. South Africa: 7% (up 16% YoY)
    5. Others: 6% (down 5% YoY)
22. Marico's International business grew by 7% in Q2FY21 in constant currency terms. The operating margin in the international business expanded to 23.1% in Q2FY21 vs 21.5% in Q2FY20.
23. Market share in Bangladesh for Parachute coconut oil was at 82%. Parachute Coconut Oil grew by 8% in constant currency terms. The non-Coconut oil portfolio in Bangladesh grew by 31% and 25% in Q2FY21 and H1FY21. The non-Coconut Oil portfolio in Bangladesh constitutes 35%of the total business.
24. The Capex for FY21 is expected to be around Rs 125-150 Cr.
25. The current MAT credit stands at Rs 144 Cr as of 30th Sep 2020.
26. The company improved its ROCE in Q2 by 220 bps YoY to 39.3%. The debt to equity was maintained at 0.09 times.
27. The net surplus for the company was at Rs 1358Cr after a gross debt of Rs 329Cr as of 30th Sep 2020.
28. The company is targeting 8-10% volume growth in H2 and 13-15% revenue growth.
29. It aims to reach Rs 450-500 Cr Markin Foods category by FY22.
30. The company is looking to maintaining an operating margin at 19%+ over the medium term. It is expecting operating margins to be above 20% for the rest of the year.

Investor Conference Call Details:

1. The premium segment in VAHO continued to face headwinds given the current macroeconomic situation, both mid-and Bottom of the Pyramid segment recovered. Nihar Shanti Amla led the growth for the franchise.
2. Saffola Honey, launched in the previous quarter, has already garnered a market share of 8% in modern trade within 3 months of its launch.
3. The company is on track to deliver INR 300 crores to INR 350 crores of food turnover this fiscal.
4. South Africa had a good quarter on the back of buoyancy in the healthcare portfolio.
5. Vietnam posted a decline in the quarter due to sluggishness in demand in the Personal Care segment.
6. With an aggressive cost optimization initiative of delivering INR 150 crores plus in structured savings, the management is confident of maintaining a threshold operating margin of 20% this year.
7. 75% of our international business comes from high growth, high potential countries like Vietnam and Bangladesh, and Marico is ready to replicate the successful Bangladesh playbook in Vietnam according to the management.
8. The management believes that the share of healthy products in in-home snacking is increasing.
9. In VAHO, Marico's objective is to have a broad participation strategy and maintain a market presence in all segments in the category. The major opportunity for big players in this category is to take market share from smaller players.
10. In coconut oil, the market share in urban is close to 60%, and the market share in rural is 46%.
11. The management believes that there is at least a runway for 8 to 10 years before saturation happens just like in Bangladesh.
12. Despite normalization in eating habits, Saffola saw sustained growth momentum mainly on the back of branding exercises and a shift in consumer preferences towards healthy oil brands.
13. The company is looking to maintain the image of Healthy better-for-you brand for Saffola and that's why it has extended into honey and ayurvedic products.
14. The company will adopt a wait and watch approach for Parachute Advanced Gold will look to drive this product once the premium segment in the VAHO category gains momentum.
15. The pandemic has brought about an accelerated move towards digital adoption of consumers and the company has done well to stay ahead of its peers in this. This is also expected to help the general trade channel see consolidation and automation.
16. The company has indeed done a price increase in Saffola but this increase has not been proportional to the RM cost rise as the rise was transient and has been cooling down. They can absorb transient input costs for a few months and thus maximize volumes and drive the penetration of the brand.

17. The aspirational period for any brand to solidify is around 3 years for the company. The company is looking to leverage its learnings with Beardo to build new digital brands.
18. The impairment in capacity is mainly due to shifting some machinery to more in demand zones and reconfiguration of the manufacturing footprint.
19. The medium-term aspiration for VAHO is to grow >10%. This should be led by Marico filling empty spaces in the value spectrum like hair fall or some of the premium end or other spaces in the mid or bottom segments.
20. The management remains confident of delivering INR 150-crore plus of structural cost savings in FY21.
21. The company has done a lot of work in tightening inventory norms and SKU rationalization and has put in a lot of automated systems which has resulted in inventory turnover days coming down from 66 to 58. The new working capital requirements will be determined by the new manufacturing footprint, the reduced inventory days at the depots or at the distributor and the aggressive SKU rationalization exercise.
22. The management has stated that if there are opportunities in the Middle East and North Africa to gain market share versus someone, Marico will definitely go ahead with that.

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 YoY basis in almost all categories and sustain growth momentum in domestic business. It is showing encouraging performance in the food category. The company has seen decent growth in overall volumes and 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 new health food categories under the Saffola brand 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1770	1462	21.07%	1651	7.21%	3421	2967	15.30%
PBT	231	205	12.68%	314	-26.43%	545	439	24.15%
PAT	169	155	9.03%	232	-27.16%	402	310	29.68%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2808	2375	18.23%	2747	2.22%	5554	4801	15.68%
PBT	321	262	22.52%	500	-35.80%	821	562	46.09%
PAT	273	208	31.25%	346	-21.10%	619	398	55.53%

Detailed Results:

1. The consolidated performance was good at 18% YoY growth in revenue and 22.5% YoY PBT growth for Q2.
2. The company saw growth in consolidated EBITDA of 26% YoY for Q2. EBITDA margins expanded 90 bps YoY to 14.4%.
3. Overall India business grew 25% YoY. The company has a cash position of Rs 1439 Cr.
4. Realisation of benefits from synergies to start from Q3 onwards. Outlets reach expanded by ~12% till Sep'20.
5. The India Packaged Beverages business showed revenue growth of 29% YoY & volume growth of 12% YoY in Q2. Margins stable YoY despite unprecedented inflation in raw tea prices.

6. The India Foods business showed a revenue growth of 13% YoY & volume growth of 6% YoY in Q2. Salt revenues grew 10% in Q2 with market share gains. The value-added salt portfolio has grown by ~100%. Pulses grew 35%. Launched new products Poha and nutria-mixes in Q2.
7. NourishCo had revenue of Rs 38 Cr and was at 87% of pre-Covid levels in Q2 and 101% in Sep. Highest ever volumes achieved for Tata Water Plus in Sep'20.
8. The Tata Coffee division saw volume and value growth of 17% YoY. Plantations volumes grew 6% YoY and Extractions Volume grew 11% YoY. Vietnam plant now operating at ~90% capacity.
9. In the Starbucks JV, the company saw a 70% YoY revenue recovery in Q2. Around 86% of stores are operational and 11 new stores and 1 new city added.
10. The UK tea business saw revenue growth of 4% YoY with volume growth of 7% YoY. It maintained a market share of 20.5% in the everyday black tea segment.
11. The USA coffee business saw a 1% YoY decline in volumes and 4% YoY revenue growth. The tea business saw revenue growth of 11% YoY & volume growth of 8% YoY.
12. In Canada, the company saw revenue growth of 1% YoY in Q2 and it maintained a market share at 29.5%. The volume decline in the quarter was 7% YoY.

Investor Conference Call Highlights

1. The reworking of the Sales & Distribution system has seen the completion of 2 out of 3 phases.
2. Operating profit grew by 24% YoY. There were exceptional items of Rs 19 Cr in standalone and Rs 24 Cr in consolidated terms which were primarily representing integration costs and redundancies arising out of the restructuring of the business.
3. The company is looking to maintain a cautious outlook due to the second wave phenomenon in most major western economies.
4. Tea inflation in India remains a headwind in the short term for the company.
5. The company expects a shortfall in tea production for the full year which should put pressure on the inventory.
6. For the new product segment of Nutri-mixes, the company is focussing largely on e-commerce.
7. The management expects the branded side of this new business to be growing at a pace of 25-30% per year going forward.
8. The rise in margins in international tea businesses is mainly due to a slight fall in commodity prices and better product mix as the company moves towards the premiumization of its portfolio.
9. The projected synergies of 2-3% margin appreciation are expected to come half from the revenue side and a half from the cost side. At present, the company is focussing on cost synergies and as time goes on, the company expects acceleration on these synergies flowing in.
10. The company takes price increases in Tata Salt based on input cost increases. This was the main reason behind the price increase of 5% in Tata Salt in Oct.
11. The company is looking to not only dominate the market share and volumes in the salt business, it is also looking to expand its market portfolio and help in premiumization of category.
12. The objective in Sampann's business is to increase penetration as it is still at a nascent stage.
13. The company has multiple products launched lined up for Tea and Coffee including a reformulation and a relaunch of the entire Tata Coffee range in the South.

14. The company has gone on in a very analytical manner in designating integrated distributors for every city and is considering all distributors regardless of category for investment and expansion.
15. Roughly half of the tea industry is still unbranded and the shift to branded has slightly accelerated in the year.
16. Similarly, in pulses, the majority of the industry is unorganized which should provide good growth opportunity for Sampann which is the only branded in the category at present.
17. The company is indeed on the lookout for inorganic opportunities and is also maintaining a large cash position to stand ready to take any arising opportunities in fast-rising segments like Sampann.
18. Although there some established players in the ready-to-eat segment, the category is still small and has a big potential for growth and thus competitive pressure is not as high as it seems.

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 company has seen good growth in both value and volume terms across all segments, especially in the tea and salt businesses. 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 and salt 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 was 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.

VBL

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)								
	Sep-20	Sep-19	YoY %	Jun-20	QoQ %	9MSep20	9MSep19	YoY
Sales	1315	1350	-2.59%	1421	-7.46%	4081	4819	-15.31%
PBT	104	99	5.05%	159	-34.59%	335	713	-53.02%
PAT	79	65	21.54%	122	-35.25%	278	503	-44.73%
Consolidated Financials (In Crs)								
	Sep-20	Sep-19	YoY %	Jun-20	QoQ %	9MSep20	9MSep19	YoY
Sales	1843	1779	3.60%	1668	10.49%	5236	6015	-12.95%
PBT	192	116	65.52%	182*	5.49%	381*	760	-49.87%
PAT	161	81	98.77%	143	12.59%	365	526	-30.61%

*contains an exceptional item of Rs 66.5 Cr for impairment of certain plant & equipment

Detailed Results:

1. The current quarter was mixed for the company with a 3.6% YoY rise in consolidated revenues.
2. Consolidated Profits were up with over 98% YoY rise.
3. 9M numbers were dismal with 13% YoY revenue decline and 31% YoY PAT decline.
4. The company saw an EBITDA rise of 17% YoY and a volume decline of 4% YoY in the quarter. 9-Month EBITDA fell 22.7% YoY.
5. Other income in Q3 grew 93% YoY.
6. Sales volumes in India fell 6.7% YoY while in international territories it grew 5.8% YoY.
7. CSD constituted 74%, Juice 6%, and Packaged Drinking water 20% of total sales volumes in Q3 2020.
8. Gross margins declined by 149 bps during Q3 2020 primarily due to an increase in the mix of promotional packs like Pepsi PET1, 250ml, Sting PET 250ml, etc.

9. Finance costs for the company declined 33.2% YoY due to the repayment of some debt from the funds from the QIP.

Investor Conference Call Highlights:

1. A rise in demand is expected for the company with the reopening of theatres, restaurants, mass transportation, and outdoor facilities.
2. The major factor in the big jump in PAT YoY is the big reduction in finance expenses.
3. The management has stated that margins near about 21% are healthy margins for the company in the long term.
4. The key focus for the company has remained in-home consumption. The company's launch of the 1.25 ltr pack at Rs 50 has been very well received. Although go-to-market is expected to rise going forward, the in-home consumption seems to be sustainable.
5. In-home consumption has gone up by 20% to 25% YoY.
6. Large PET bottle consumption has grown more than 10% YoY.
7. The present inventory level is at Rs 848 Cr. It is elevated due to the offseason currently.
8. In terms of monthly YoY recovery, the company finally saw positive growth in September with 12% YoY growth.
9. The management has stated that it is difficult to provide any specific guidance on margins and RM costs going forward.
10. The management expects the company to maintain its pace of adding visi-coolers of less 40,000 units each year.
11. The current debt is at Rs 2830-2840 Cr.
12. Institutional sales have been very low at only 2-3% of sales.
13. Rural & semi-urban sales were at almost 30% each.
14. The company has spent around Rs 400 Cr in Capex in the year and this figure represents the majority Capex for the year.
15. The management has stated that VBL is among the most profitable soft drink companies in the world. It also stated that the main commodities that affect the company are oil and sugar.
16. The company is indeed looking for ways to reduce seasonality in the beverages business but the management acknowledges that this is a deeply embedded and structural characteristic of this industry everywhere. The company sees main newcomer additions in peak summer season and it is looking to reduce seasonality by increasing volumes for these same customers in the rest of the year.
17. The management is aiming to maintain >10% growth in the next 3-5 years.
18. The company saw a good response to its dairy-based products but had to almost withdraw these products due to the pandemic. The company is now looking to relaunch this segment in Jan or Feb next year.

19. The company has stopped making the fizzy Slice juice-based product as it didn't get a good response in its pilot locations.
20. The company is indeed looking at much larger plants and scaling down the smaller plants as operating these smaller plants is much costlier and it is more feasible to either convert into a large plant or shut it down.
21. The company has enough plants in South & West and is not looking to add any plants in these zones.
22. Tropicana is the only space where the company is running out of capacity and is looking to open a new plant. The Capex required would be at least Rs 200 Cr but this will not happen in the next at least.
23. The juice business has grown by 19% in Q3. The main advantages of Tropicana over market rivals is VBL's distribution reach which is much larger than rivals and the huge volume number of Visi-coolers in the market which the big competitors like Real & B-Natural do not have.
24. The compensate pricing with Pepsi has been fixed for 20 years and will not be renegotiated.

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 good recovery in the quarter with a big rise in margins. Post lockdown demand seems to have stayed resilient as in-home consumption has risen along with juice consumption as on-the-go consumption slowly comes back to normalcy. 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 provide any margin of safety.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2118	1961	8.01%	1816	16.63%	3934	3244	21.27%
PBT	561	617	-9.08%	478	17.36%	1040	642	61.99%
PAT	473	554	-14.62%	398	18.84%	871	580	50.17%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3848	3394	13.38%	3662	5.08%	7510	6912	8.65%
PBT	534*	122**	337.70%	593	-9.95%	1128*	516***	118.60%
PAT	473	107	342.06%	454	4.19%	927	411	125.55%

*Includes an exceptional item of Rs 132 Cr which is for premium on NCDs purchased by Group.
** Includes an exceptional item of Rs 268 Cr which is impairment charge on 'Levorphanol'.
*** Includes an exceptional item of Rs 305 Cr.

Detailed Results:

1. Consolidated revenues were up with 13% YoY growth. Profit has risen over 3 times YoY in Q2 due to exceptional items recognized in both Q2FY21 & Q2FY20.
2. The EBITDA for the quarter was at Rs 863 Cr which was up 36% YoY with EBITDA margins of 22.6%, an improvement of 370 bps YoY.
3. Consolidated PAT excluding exceptional items was up 73% YoY.
4. The company reduced net debt by Rs 2709 Cr in H1, which is a 40% reduction since March 2020. Net Debt as of 30th Sep 2020 stands at Rs 4031 Cr.
5. India revenues were at Rs 1583 Cr in Q1 which was up 11% YoY. The Company gained market share in Gynaecology, Pain management, Anti-Infectives, Anti-Diabetic, and Hormones portfolio in Q2 vs last year. Animal Health business saw revenues of Rs 161 Cr in Q2 which is a growth of 20% YoY.
6. US revenues were up 18% YoY to Rs 1709 Cr. The company received approval for 10 new products (incl. 2 tentative approvals) and filed 5 additional ANDAs in Q2.
7. Cadila received final approval for ANDA for Liposomal Doxorubicin injection in Q2.
8. The Phase II clinical trials of Desidustat in the management of COVID 19 are underway in Mexico.
9. The Company has also completed Phase II clinical trials of Pegylated Interferon Alpha-2b in India for management of COVID 19.

10. The Adaptive Phase I/II clinical trials are underway for the Company's lead vaccine candidate ZyCoV-D.

Investor Conference Call Highlights

1. The US generics business grew by 21% YoY driven by volume expansion.
2. The company's emerging markets business grew by 8% YoY and saw sales of Rs 236 Cr. IN constant currency terms, this business grew 12% YoY.
3. The India Consumer Wellness business grew by 9.3% YoY.
4. The company completed QIP for Rs 1000 Cr in Q2 which was oversubscribed 3 times. Proceeds of the issue were used for redemption of nonconvertible debentures leverage to the balance sheet.
5. US formulations business remains the largest contributor to the consolidated revenues with a 45% share in total revenues in Q2.
6. API business saw sales of Rs 160 Cr and growth of 52% YoY.
7. The company is about to complete preclinical development for ZYIL 1, a small molecule NCE positioned for the management of critically ill COVID-19 patients.
8. The company has received regulatory permissions in India to conduct a Phase II clinical trial of adalimumab for COVID-19.
9. The company completed Phase I trials for the Hepatitis E vaccine and has received regulatory permission to conduct preclinical tox studies for one more vaccine during the quarter.
10. The management attributes the growth in India's business in Q2 to the growth in the chronic portfolio.
11. The company is still not completely back in terms of its marketing activities and there can be some increase in marketing going forward. But overall, fixed expenses are back to normal.
12. The company continues to hold a good market share in Lialda due to the complexity of molecules and the sourcing of materials.
13. Pricing in the base business is expected to remain stable at current levels.
14. Other than Saroglitazar, the company hopes to maintain R&D at 7-8% of revenues in FY21.
15. Generic growth in India has been muted in Q2.
16. The animal health business has done well due to the strong brand presence, customer outreach, and the revival of the rural economy in India. The company also saw better margins in this business due to a favourable product mix.
17. The management expects APIs to grow >10% going forward.
18. The company will not receive any export benefits due to the discontinuation of the previous export incentive scheme and it is waiting for the details of the new scheme to gauge how the incentives will come in for it.

19. There are a number of Remdesivir providers in India but Cadila remains the lowest-priced provider in the market. The company is still building for full capacity and aims to produce as much as it can sell.
20. The company's COVID vaccine is expected to come out by April if Phase III trials are completed in time.
21. The management has stated that compared to the Pfizer or any other vaccine, the company COVID vaccine has a few advantages like:
    1. It doesn't use an infectious agent as a platform for delivery so safety is enhanced.
    2. DNA vaccines have a very clear pathway that lies within WHO & USFDA guidelines.
    3. It has a highly scalable platform which makes it easy to build for scale and find third-party manufacturers.
    4. The product is stable at 2-8 degrees Celsius which is very convenient in terms of cold chain logistics and shelf life.
    5. It has an intradermal application which should be a much easier administration.
22. The company has increased its capacity for DNA vaccines by 70%. This whole new capacity can be used to make only 1 vaccine at a time.
23. The hasn't been any shortage in demand for Remdesivir despite the WHO comments as the USFDA has shifted it to first-line treatment now instead of emergency and this drug remains the only line of treatment for moderate to severe patients.
24. The competition for Lialda is low as the majority of the mesalamine franchisees are very difficult to develop and these are very complex products to continuously manufacture.
25. The competition in the Tamiflu space is intense and the company stands ready for large quantities as demand is expected to be high due to COVID-19.
26. The management believes that the company has outperformed the market in all operating segments in H1.
27. The management believes that with the company's strong R&D, it can easily repurpose or bring new introductions whenever needed in the COVID portfolio when demand for it drops in the future.
28. The company has set up an R&D engine that will be churning out first-in-India launches at affordable prices which should ensure adequate momentum for many years to come.
29. The acute portfolio is the one where the company is struggling as the market is slow and the company is not a big player in this space.
30. The management expects to see the current growth momentum for the domestic business to last at least 2 more quarters.
31. The management has stated that the company needs at least 3-3.5 years to become a sizeable influence of $150-200 million in the injectables space.

32. The company's transdermal approvals are contingent on its Moraiya warning letter getting resolved. The company expects to see 5-6 approvals in this space. Once the approval is done, the company can set up this business in FY22 and see a good scale-up in the next 2.5 years.
33. In the primary biliary cholangitis space, the company expects its drug to hit the markets in 2023 or 2024. This space has a big market size of a few billion dollars and has no approved products.
34. The management has stated that it expects to keep the COVID-19 vaccine affordable as it is very scalable and can be made in high quantities easily.
35. The company aims to file a total of 30-35 NDAs in FY21 and 40-45 NDAs in FY22.

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 see a resurgence 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 its COVID-19 vaccine which is touted to be more scalable and have better shelf life than the vaccine announced by Pfizer. 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 to resolve the Moraiya issue pending which can delay its plans for the expansion in the transdermal space. 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 in the pharma space.

Cupid

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	31	43	-27.91%	29	6.90%	59	78	-24.36%
PBT	9	14	-35.71%	8	12.50%	17	25	-32.00%
PAT	7	11	-36.36%	6	16.67%	13	19	-31.58%

Detailed Results:

1. The current quarter was dismal with a revenue decline of 28% YoY and a profit decline of 36% YoY.
2. The company's total order book as of 1st Oct 2020 consists of Rs 120 Cr of confirmed orders.
3. The EBITDA margin for Q2 fell to 34.4% vs 35.6% a year ago.
4. Geographical sales breakup was 91% in exports and 9% domestic in Q2FY21.
5. Product-wise revenue breakup in Q2 is as follows:
    1. Male Condoms: 39%
    2. Female Condoms: 57%
    3. WBJ & Hand Sanitizers: 1%
6. The board has considered and approved the Service Provider and License Agreement between Cupid Limited and Invex Health Private Limited for manufacturing of Medical Devices including various testing kits / diagnosing kits by Cupid Limited.
7. The company has announced an interim dividend of Rs 1 in Q2.

Investor Conference Call Highlights

1. The company has around Rs 18 Cr of products in transit which were not included in performance due to the new accounting rules. These products should add around Rs 3-4 Cr in profit when recognized.
2. In Q2, Cupid completed the dispatch of the entire Rs 120Cr worth of female condom orders to the government of Brazil.

3. The new business vertical for medical devices shall include rapid testing kits and ELISA kits. These rapid testing kits are useful not only for Corona but also for dengue, HIV, and Malaria. ELISA tests are based on enzymes and it indicates the antibodies amongst the COVID infected people.
4. The global market potential for the medical devices business is expected to be Rs 860 billion. This business segment is expected to start commercial operations at the end of Q4FY21.
5. The company has reduced its receivables to Rs 25 Cr in Sep '20 from Rs 41 Cr in March '20.
6. The payables have also come down from Rs 21 Cr in March '20 to Rs 6 Cr in Sep '20 and the cash and cash equivalents have increased to Rs 48 Cr.
7. The construction and installation of machinery for the medical devices segment should be done by Jan '21. Revenues would start coming in during the first quarter of 2022.
8. The management expects rubber prices to be at least 10% higher in Q3 & Q4.
9. This price increase should have a minimal impact of at most 1-2% on the company's margins.
10. The company is guiding for revenues of Rs 135-140 Cr and profits of Rs 30-35 Cr in FY21.
11. The business has been severely impacted as many govt have reduced or relocated their budgets due to COVID-19.
12. The management expects revenues of Rs 30 Cr from the medical devices business in FY22 and the profits will be split evenly with Invex.
13. The management expects the company to earn at least Rs 20 Cr of profits in H2 going forward.
14. The company is back at almost 100% utilization in Sep and all activities are back to normal.
15. The management has stated that the company would like to maintain a yearly dividend at Rs 4.
16. The order book of Rs 120 Cr has orders for female condoms of Rs 45 Cr.
17. The management is expecting to earn margins of 20% from medical devices even including current prices.
18. The long term outlook for govt and other tender orders remain stable. The short-term outlook has become volatile due to the reallocation of funding towards COVID-19 and other relief efforts.
19. The company is looking to add orders from Papua New Guinea and Bolivia and 2 small countries in Sub Sahara Africa.
20. The medical devices segment is expected to have a Capex of only Rs 6-8 Cr in total.
21. The company expects the verdict on the USFDA approval to be done by Dec '21 at the earliest.
22. The management has stated that despite high competition in the medical devices space, the demand continues to outstrip the supply, and thus there shouldn't be many struggles due to competition.
23. The big orders from South Africa and others which the company was expecting may have gotten postponed due to COVID-19 and may come in next year.

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 the postponement of orders from govt and the slow revival of operations. The company seems to be well placed with a strong order book ensuring revenues of more than Rs 120 Cr. The company is also looking to expand into the medical devices field and start selling these by the end of this financial 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1727	1451	19.02%	1728	-0.06%	3450	2617	31.83%
PBT	685	483	41.82%	661	3.63%	1346	849	58.54%
PAT	513	353	45.33%	492	4.27%	1006	620	62.26%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1763	1493	18.08%	1748	0.86%	3506	2608	34.43%
PBT	694	488	42.21%	661	4.99%	1354	861	57.26%
PAT	520	357	45.66%	492	5.69%	1012	629	60.89%

Detailed Results:

1. Consolidated revenues were up an impressive 18% YoY while profit saw a rise of 46% YoY in Q2.
2. The company saw forex losses of Rs 15.6 Cr in Q2.
3. H1 numbers were very good with consolidated revenues up 34% YoY and profits up 61% YoY. This good H1 performance was mainly due to the stellar Q1 performance and the continued growth momentum in Q2.

Investor Conference Call Highlights

1. The company has capitalized Rs 614 Cr in Q2 for the Capex program which has gotten delayed due to COVID-19. The remaining projects are expected to be completed before the end of the financial year.
2. The company is planning a new Capex of Rs 400 in addition to the planned Rs 1800 Cr.
3. Exports accounted for 87% of sales.
4. The product mix for generics to custom synthesis is at 60% : 40%.

5. Constant currency growth for the quarter has been 18% YoY.
6. Nutraceuticals business amounted to Rs 167 crores for Q2 and Rs 294 crores for H1.
7. The company has received some very fast-tracked projects with a lot of incentivization and high returns due to which they are planning for the new Capex of Rs 400 Cr for the custom synthesis business.
8. The management has refrained from providing any comment on the concerns regarding the case against company officials brought up by SEBI.
9. The company has increased its capacity dramatically from debottlenecking. Its capacity for naproxen has increased by 5000 tons and gabapentin has increased by 2500 tons.
10. The management aims to sell these new incremental volumes without compromising on price.
11. The new projects coming in for custom synthesis are for an organic synthesis reaction and it cannot be confirmed whether it is for COVID or any other therapy.
12. The management has stated that UNIT 1 & 2 have already received USFDA clearance and thus adding additional units to these spaces will not require any more approval as it is to be used for the same product. Thus the company can immediately expand manufacturing in this UNIT and start selling higher volumes out of it.
13. In the medium term, the management expects custom synthesis to lead over generic products but in the long term these divisions should be at 50-50.
14. Some of the Rs 1800 Cr Capex is for debottlenecking which has been completed. Some of it is for backward integration, upgrading utility infrastructure, and the modern wastewater treatment plants at both sites. All of these are keeping in mind the next 10-15 years and preparing for new regulations to come.
15. The Capex of Rs 400 Cr for the custom synthesis projects is expected to be completed in the next 6-9 months and is expected to start production immediately upon completion.
16. The company is waiting on final clearance on the Kakinada site and is expected to start construction on the site in Dec or Jan. The Capex for this site is around Rs 600 Cr.
17. The management is not concerned with the fact that top customers account for 35-36% of sales as they believe that as the company keeps on adding more products and capacity, new customers will come in automatically and the customer concentration will normalize naturally.
18. Sales are expected to start in 203 years for the Kakinada unit with construction expected to be completed in 1-1.5 years.
19. Of the new brownfield expansion for backward integration, the company can use only 25% of the new capacity. The rest is pending approval from regulatory authorities.
20. The company expects sales of Rs 600 Cr in FY21 in the Nutraceutical business. It is expected to maintain a growth rate of 15-18% as the company expands to new markets.
21. The management has stated that in the custom synthesis business, most of the customers are big pharma companies and many are indeed repeat customers.

22. The company has not had to turn down any big orders due to a capacity shortfall so far.
23. The management has admitted that gross margins near 60% are sustainable going forward.
24. There are no instances of customers stocking up in APIs and most of them want delivery to be just in time. Instead many orders in December are getting postponed to January as it is the end of the year for most customers.

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 H1 with 34% revenue growth and 61% PAT growth. The management has done well to gain big and high yielding projects in the custom synthesis business which has spurred the company to do additional Capex to expand custom synthesis capacity. 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 is diversifying into as many emerging segments as they can and whether the rise in gross margins in last 6 months is sustainable as the management has stated. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3346	3446	-2.90%	3244	3.14%	6590	5954	10.68%
PBT	620	1021	-39.28%	1362	-54.48%	1981	1714	15.58%
PAT	481	1365	-64.76%	950	-49.37%	1431	1913	-25.20%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	4962	4867	1.95%	4514	9.92%	9476	9155	3.51%
PBT	973	786*	23.79%	901	7.99%	1773	1655**	7.13%
PAT	772	1107	-30.26%	595	29.75%	1366	1783	-23.39%

*Includes tax benefit of Rs 320 Cr

**Includes tax benefit of Rs 128 Cr

Detailed Results:

1. Consolidated revenues were up a modest 2% YoY while profit saw a fall of 30% YoY in Q2 mainly due to large PAT in Q2FY20 due to the above-mentioned tax benefit.
2. EBITDA was up 9% YoY with EBITDA margins were at 25.9% vs 29.9% a year ago.
3. Revenue growth was muted due to large Proprietary products out-licensing income of 723 Cr in Q2 FY20. Revenue from sales growth was at 20%.
4. Gross margins declined to 53.9% in Q2FY21 vs 57.5% last year.
5. R&D expenses increased 19% YoY to Rs 436 Cr which is 8.9% of sales in Q2.
6. North America saw revenue growth of 28% YoY with 9 new product launches (Ciprofloxacin & Dexamethasone, OTC Nicotine Lozenge, Penicillamine Caps, Methylphenidate ER, Dexmedetomidine, Fulvestrant Inj, OTC Diclofenac, OTC Olopatadine, and Dimethyl Fumarate) and accounts for 37% of sales. The growth was due to an increase in base product volumes & new products while favourable forex partially offset by price erosion.
7. The company filed 2 new ANDAs in Q2 and has around 92 ANDAs and 2 NDAs pending approval.
8. India saw revenue growth of 21% YoY on account of full quarter sales from portfolio acquired from Wockhardt and new product launches of COVID-19 products like Avigan (Favipiravir) and Remdesivir.

9. The company grew 4% YoY in other markets. Russia declined 3% YoY due to the weakening of the ruble while CISR grew 19% YoY due to new product launches. The Rest of the World saw growth of 7% YoY due to good growth in China.
10. EU saw growth of 36% YoY to Rs 375 Cr with growth driven by new product launches and favourable forex movement across all markets.
11. Global Generics segment revenue grew 21% YoY to Rs 3984 Cr.
12. PSAI segment saw growth of 20% YoY due to:
    1. Growth in the services business
    2. New product sales
    3. Favourable forex movement
13. The company filed 39 global DMFs and 1 US DMF in Q2.
14. The proprietary products segment declined 92% YoY to Rs 62 Cr due to the absence of the Neurology franchise products which were sold off last year.
15. The Capex done in Q1 was at Rs 150 Cr. Net debt to equity was at 0.02 as of 30th June 2020.
16. The company has cash and cash equivalents of Rs 2607 Cr as of 30th Sep 2020.

Investor Conference Call Highlights

1. The gross margin for the Global Generics and PSAI was at 59.4% and 26.8% for the quarter.
2. SG&A spending for Q2 was down 1% YoY and it now accounts for 26.8% of sales, an improvement of 80 bps YoY.
3. The effective tax rate for the quarter is at 11.6%. The overall tax rate for FY21 is expected to be 25%.
4. The free cash generated during this quarter was Rs 606 Cr. Net debt to equity was at 0.01.
5. The company recorded its highest-ever quarterly sales of Rs 4897 Cr.
6. The company has entered into a deal with RDIF Russia for Sputnik V vaccines to conduct clinical trials and distribution in India. It will be starting combined Phase II and III clinical trials for the vaccine in the near future.
7. The company expects to launch more than 30 new products in FY21.
8. The company is looking to expand its capacity for Remdesivir to meet demand from India and other emerging markets.
9. The company is also conducting clinical trials for Favipiravir in Kuwait and UAE and additional trials in the USA, Canada, and India.
10. The company faced a recent cyberattack and is now isolating the impacted IT service part and taking the help of international experts in cybersecurity to contain and restore from its backup systematically in a cautious and controlled manner.
11. The management has stated that the company is going to use more digital marketing going forward. This should help keep overall SG&A spend under control and make it more productive.
12. In the clinical trials for the Sputnik vaccine, the company is taking in 100 patients for Phase II. The company expects these trials to be over by March ’21.

13. The company expects to have its Sputnik capacity ready by the time the vaccine is ready to go commercial. The company will then be looking to scale up capacity to 100 million doses.
14. The Wockhardt deal gives the company synergies on both top line and bottom line, enabling it to sell more at less cost.
15. The company has a sales force of close to 6500 people in India.
16. The increase in intangible assets in the balance sheet is from Wockhardt.
17. The company is gearing up for the launch of Vascepa in the near future.
18. The most significant contributors to domestic QoQ growth was the end of the lockdown, Wockhardt product portfolio, and COVID products.
19. The company is seeking emergency use authorization in the United States for Favipiravir.
20. The global generics business has seen gross margins fall 200 bps QoQ due to lower export incentives, lower forex rates, and product mix.
21. The company is optimistic about the prospects in China and is looking to introduce more of its global portfolio in China going forward.

Analyst's View:

Dr. Reddy's Labs has been one of the biggest Indian pharma companies on 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 steady performance in Q2 with good domestic growth of 21% YoY and 46% QoQ. The API business is expected to continue its growth momentum. The company has also done well to acquire marketing rights to the Sputnik V vaccine for COVID-19 in India. It remains to be seen how the company will be able to sustain the high gross margins seen in H1. It also remains to be seen how will the clinical trials for the Sputnik V vaccine go. Nonetheless, given the company's history of excellent performance and its standing in the global pharma industry, Dr. Reddy's Laboratories is 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	54	42	28.57%	39	38.46%	93	86	8.14%
PBT	14	9	55.56%	10	40.00%	24	24	0.00%
PAT	10	9	11.11%	8	25.00%	18	19	-5.26%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	54	45	20.00%	41	31.71%	94	90	4.44%
PBT	11	7	57.14%	8	37.50%	19	20	-5.00%
PAT	7	6	16.67%	5	40.00%	12	14	-14.29%

Detailed Results:

1. The company had a good quarter with an almost 20% YoY rise in consolidated revenues and a 17% YoY rise in PAT at a consolidated level.
2. H1 figures were encouraging with a revenue gain of 4% YoY and profit fall of 14% YoY.
3. The EBITDA margin was at 32.59% in the current quarter vs 28.38% a year ago. ROE has risen to 18.81% in Q2FY21 from 18.26% a year ago.
4. The revenue growth in Q2 for the various segments is:
    1. Poultry Healthcare: Up 28% YoY
    2. Animal Healthcare: Up 41% YoY
    3. Other: Up 16% YoY
5. Poultry healthcare still remains the biggest contributor at 64% contribution to revenues.
6. The rise in demand was mainly attributed to the demand for milk and eggs going up, which directly positively impacted sales.
7. Overall vaccine sales grew 26% YoY in Q2 and 8% YoY in H1. Health product sales grew 51% YoY in Q2 and 22% YoY in H1.
8. Domestic sales grew 30% YoY in Q2 and 8% YoY in H1. Export sales grew 36% YoY in Q2 and 25% YoY in H1.
9. The National Animal Disease Control Program of the Government of India is expected to be implemented for the Brucella vaccine by January 2021 (which was supposed to have been started

from Feb 2020). Hester is one of the two suppliers for this vaccine. This delay has led to a delay in sales for the Brucella vaccine.

10. The company is looking to launch the vaccine in the next 6 months for Lumpy Skin Disease (LSD) in cattle which is an emerging disease in India. Hester is the only company in India that has an LSD vaccine under development. As there is no treatment for the disease, prevention by vaccination is the only effective means to control the disease.
11. Animal trials for Hester's COVID-19 vaccine are expected to begin in December 2020.
12. Hester Nepal saw a dramatic fall in revenues due to lockdown in Nepal and FAO not tendered for vaccines in Q2 & H1. Revenues shrank to Rs 0.5 Cr in Q2FY21 from Rs 1.5 Cr last year.
13. The Texas Lifesciences unit also saw a marginal revenue growth of 12.4% YoY in Q2.
14. Hester Tanzania had an average quarter with flat YoY growth in Q2. The company worked mainly towards creating a distribution and marketing network in Tanzania in the quarter.

Investor Conference Call Details:

1. The animal health products are more recession-proof as compared to vaccines and are continuously bought while vaccines can be skipped due to financial constraints.
2. The govt is expected to do another tender for the Brucella vaccine order and Hester aims to become the largest supplier to this tender offer.
3. There is a lot of opportunity in the LSD vaccine as Hester is the only one developing it and this is an emerging disease that is also endemic in Africa & Middle East thus having export potential as well.
4. FAO has started releasing tenders from Q3 onwards which should help bring the Nepal business back to speed.
5. The company's manufacturing project in Africa has been delayed by 60 days due to transport and freight restrictions.
6. The total population size to be vaccinated for LSD is around 300 million and Hester expects this to yield Rs 30 Cr of sales annually.
7. The company is in the process of registration of products in 15-20 countries in Africa.
8. In the past, the company has been able to account for 80% of Brucella sales and 70-75% of PPR tender order in India.
9. The management has stated that ot expects the WC cycle to improve from Q3 onwards.
10. Out of the total gross borrowings of Rs 120+ Cr, $10 million or Rs 70-75 Cr is from Bill & Melinda Gates Foundation.
11. Since March '20, the company has capitalized nearly Rs 100 Cr of assets. All of this has been for the Tanzania plant.
12. Africa remains a fragmented market for the company and thus Hester is concentrating on setting up distribution channels and make sure that they are optimally utilized.
13. The company is looking to only maintain its role in the development of human vaccines and the COVID-19 vaccine and it will look to outsource the manufacturing of these human vaccines when they get developed. This is because the company will need to do additional capex to set up manufacturing facilities for human vaccines as it does not have spare capacity. The company will indeed explore the option to start making human vaccines in-house in the future.
14. But if required, the company can convert its Nepal facility to make human vaccines but that will be at the expense of the capacity of the PPR vaccine currently operating there.

15. The management has stated that there isn't any chance for Brucella and LSD to be eradicated soon. To date only 2 animal diseases have been eradicated using vaccine and PPR is expected to be the third one. But even this was tabled to take at least 15 years by world bodies 3 years ago.
16. The Brucella vaccine is a one-time lifetime vaccine and the demand for it is directly proportional to the number of calves born every year.
17. Africa is not dependent on tenders for any of its business and if any tenders come its way then it will be a bonus for the company.
18. The management has stated that the company will indeed prioritize capex for Brucella and LSD over FMD. One big reason for this is that FMD is 100% tender business while the others are blended with trade markets as well.
19. The project with Novapharma is still under construction at the moment.
20. The herbal animal products market opportunity is huge since the world is increasingly moving towards antibiotic-free animal food products. It has already been done in the west where many animal antibiotics have been banned and it will soon come to India as well.
21. The profitability of these products is expected to match that of vaccines.
22. Currently, Brucella and PPR account for 80% of the animal health business.
23. The peak revenue potential of Hester Tanzania is around Rs 200-230 Cr while the same for Hester Nepal is Rs 50-60 Cr. The breakeven level for Hester Nepal is Rs 15 Cr.
24. The top-selling products in the Animal health products division are ProtinC and ReproPlus which are used for improving milk production and reproduction respectively.
25. The Texas facility is doing 90% of production for Hester and 10% for external contract manufacturing.

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. But Q2 has seen good performance which has also helped the company see some marginal growth in sales in H1. The company has made good inroads in the vaccine space and is also looking to capitalize on a new vaccine opportunity for LSD. The management has done well to clearly identify the growth path ahead with the focus to expand into the health products which has greater potential and lower development complexity in contrast to vaccines. It is also looking to capitalize on its resident vaccine development expertise to establish itself in human vaccines. It remains to be seen how long the slowdown in animal vaccine tenders in both India and abroad continue and how long it will take for the company to establish itself in the new space of animal health products that it has entered. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	506	492	2.85%	552	-8.33%	1058	977	8.29%
PBT	87	144	-39.58%	162	-46.30%	248	332	-25.30%
PAT	71	122	-41.80%	127	-44.09%	198	270	-26.67%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	828	519	59.54%	582	42.27%	1410	1032	36.63%
PBT	271	139	94.96%	158	71.52%	429	323	32.82%
PAT	204	118	72.88%	122	67.21%	326	261	24.90%

Detailed Results:

1. Consolidated revenues were up with 60% YoY growth. Profit has risen 73% YoY in Q2.
2. The segment revenue split is as follows:
    1. APIs: Rs 199.7 Cr
    2. Domestic Formulations: Rs 108.3 Cr
    3. Export Formulations: Rs 482 Cr
    4. Other Operating Income: Rs 10.7 Cr
    5. Other Income: Rs 27.2 Cr
3. The company announced a second interim dividend of Rs 3 per share for Q2FY21.

Investor Conference Call Highlights

1. Other expenses have risen due to one-time employee increment which was deferred from Q1 due to COVID-19. There were also some costs related to setting up ramps of about 3, 4 products.

2. The management insists that the Canada Remlivid settlement has been over.

3. In oncology, the company is seeing only 70% to 75% of the sale potential being realized because of lower hospitalization in cancer treatment. This is because a lot of patients are deferring treatment of cancer because of COVID fears. This is the reason behind the weakness in domestic revenues.
4. The company won some very good tenders in agrochemical supply. The company has launched Tamiflu for the first time in Brazil. And it is also getting good government orders from Canada. In the USA, the profit share from Alvogen will be recognized in Q3 & Q4.
5. Generally, Q1, Q2 tend to have lower margins because there's a lot of stocking, and Q3, Q4 is when the actual revenue gets realized.
6. The company has started off with a modest portfolio for Agrochemicals but it does have a few blockbuster ideas in this space.
7. Natco is trying to get an all-India coverage and by end of this year, it should have enough reps to launch in all the major agro states in the country.
8. Despite the revival of oncology in small cities, the sales of this segment remain subdued as most of the sale happens in Delhi, Mumbai, Chennai, Hyderabad, and Bangalore.
9. The rise in export profits has not been as high as the rise in export revenues as the company is directly recognizing setup costs as expenses and is not looking to capitalize them.
10. The management remains confident of reaching the guided target of 20-25% PAT growth for FY21.
11. The big factor for growth in 2022 will be Revlimid approval and launch.
12. The company has cash and cash equivalents of Rs 1065 Cr and a total debt of Rs 431 Cr.
13. The company has 5 REMS products which are Lenalidomide & pomalidomide in Canada and pomalidomide & Bosentan in the USA. The fifth product is yet to be announced.
14. Total Capex spends so far this year was Rs 140 Cr.
15. The pricing pressure on the oncology space has largely been resolved and the only issue here is the lack of growth.
16. A lot of the onetime costs have been done already and the company can now come back to historical gross margins going forward.
17. The company has gotten approval for generic Pomalyst and the market opportunity here is a little less than $1 billion. Natco is one of the only 2 companies with approval for this drug currently.
18. Apixaban is selling well for Natco. Only Natco and Pfizer have brands for this drug in India currently.
19. The sales opportunity from the new agrochemical product which is pending approval is Rs 2000 Cr.
20. The company is waiting for manufacturing licenses after which it will start expensing the operational costs for the Agchem business.

21. The management believes that the opportunity from Tamiflu is better in Brazil & Canada than in the USA for Natco. The retail opportunity is not strong and thus the company is relying on govt tenders for this product.
22. The management has stated that there is always aggressive competition in India in oncology but in India, the declines are not as steep as the USA due to the branded generic nature of the products.
23. The management has admitted that Lotus Pharma has indeed gotten approval for Revlimid earlier than Natco but this is not expected to have any financial impact.
24. The company has not seen any decline in market share and demand for Copaxone from the launch of a competing oral drug in the same therapeutic space.
25. The litigation on CCP is pending in Delhi High Court.

Analyst's View:

Natco Pharma is a vertically integrated and R&D focussed pharma company with a specialization in FDFs and APIs. The revenues for Q2 has been very good especially from the export market. 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. Demand for this sector has stayed muted as the hospitalization rate for cancer patients has remained subdued. The management expects the demand to come back slowly. The company is doing well from Tamiflu supply to Brazil and Canada through govt tenders and is also expecting big things from the emerging Agrochem segment. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	16415	8658	89.59%	14509	13.14%	30924	17194	79.85%
PBT	326	327	-0.31%	451	-27.72%	777	764	1.70%
PAT	326	309	5.50%	451	-27.72%	777	733	6.00%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	16426	8661	89.65%	14520	13.13%	30947	17203	79.89%
PBT	328	327	0.31%	451	-27.27%	779	765	1.83%
PAT	328	309	6.15%	451	-27.27%	778	735	5.85%

Detailed Results:

1. There was a 12% YoY fall in the value of New Business (VNB) in H1.
2. Individual WRP (Weighted received premium) fell 22% in Q2 and 2% in H1 vs industry fall of 11% in H1. Individual APE (Annualized Premium Equivalent) fell 1% YoY while Total APE also fell by 4% YoY in H1.
3. The new business premium was up 7% YoY while the renewal premium grew 22% YoY in H1. The new business Margin was at 25.1% while operating return on embedded value was at 17.6% in H1FY21 vs 19.6% a year ago.
4. There was also a 38% YoY growth in Individual Protection APE while Group Protection APE fell by 54% YoY.
5. Indian Embedded Value grew 16% YoY in H1.
6. The company maintained a solvency ratio of 203%.
7. Ranked #1 in terms of Individual WRP with market share expanding by 235 bps from 15.2% to 17.5%. The overall market share for the company within the group and the new business segment rose to 27.4% & 23.3% respectively.

8. As of 30th Sep 2020, the AUM was at Rs 1.5 Lac Cr and had a 67:33 debt to equity mix. 97% of debt investments were in G-Sec and AAA-rated bonds.
9. The product mix was at: UL: 23%, Par: 33%, Non-par savings: 30%, Protection: 9%, Annuity: 5%.
10. The operating expense ratio was maintained at 11.1% in H1FY21 vs 14% a year ago.
11. HDFC Pension Fund saw AUM growth of 70% YoY while market share rose to 33% from 29% last year.

Investor Conference Call Highlights

1. The company sold 4.4 million policies in Q2 which is a YoY growth of 6%.
2. The management continues to see growth momentum in Individual Protection APE.
3. The share of protection has risen to 9% in H1FY21 from 6% last year.
4. Although the number of COVID-19 claims is rising, they are within the company's estimates.
5. The Agency channel saw sales growth of 6% in Q2.
6. 95% of the policies are being renewed digitally, accounting for 88% of renewal premiums being done via digital modes.
7. The management prefers to maintain a cautious stance despite delivering a 2% growth in such uncertain times and is still maintaining the target of flat YoY growth for FY21.
8. The main reason to raise sub-debt and increase solvency was to maintain enough of a comfortable position to be able to withstand volatility in markets.
9. The management is confident in its Rs 41 Cr of reserves for COVID-19 claims as it is within their actuarial assumptions.
10. The company sees good potential in the retiral space and this was evident from the 38% growth in the annuities business.
11. Sanchay Par Advantage has done well and one of the main reasons behind this is the faster cashback and the equity upside. The Banca channel has seen a good response to this product and its timing was also good considering it returns which were better than ULIPs for customers.
12. ULIPs are slowly being reduced and replaced by par products.
13. The company will maintain the status quo on pricing and will maintain a risk-based approach to remain competitive in a multi-tier system.
14. In the annuity business, the average age of the customer is close to 60 and 95% of business is from premium annuities.
15. The company's market share from HDFC Bank in the Banca channel is at 65-70%.
16. The company's credit protect margins have become much better due to the contraction in the business and fall in disbursement and coverage.
17. The back book surplus has grown by 10% which in view of management is a reasonably robust level of growth.
18. The management maintains that HDFC Life has remained focused on protection before many other industry players and thus it hopes to maintain a sustainable advantage in this emerging product segment.
19. There has indeed been an uptick in searches for HDFC Life products and policy sales in the past 6 months but the online sales have been stalled at the medical test stage where a large chunk of medicals are not done by telemedical and in-person medicals have declined due to COVID-19.
20. The company is also seeing volume and ticket sizes of savings products rising in Q2 vs Q1.
21. Opex growth has certainly been slowed down due to digitization but once field operations resume in full, it can start rising as well.

22. Non-HDFC bank Banca channels have shown growth of around 6%.
23. The company expects growth to resume in the credit protect segment once the disbursals in the industry from NBFCs and other start rising after Diwali.
24. The management has stated that ULIP sales are expected to stay down for at least 9 months since market volatility.
25. The management states that under the current COVID-19 situation, the average customer expects health cover foremost, then life cover, then annuities and savings products come into the picture.
26. Right fit and right sale to each potential customer is of foremost importance according to the management as they do not want to cause any persistency issues and disillusionment for the customer from a wrong product sale and undermined expectations and returns from it.
27. The major reason for EVOP falling YoY is the fall in interest rates YoY.
28. The company has initiated a very large training and capability program called Agency Life which was spread across all agency partners. In the time of COVID, it was migrated from an offline branch training to an online where more than 6,000 financial consultant partners come online and get trained. This is one of the many structural interventions the company has done to maintain and enhance the quality of business and agent performance.
29. The management expects to see more traction coming in the near future in Q3 & Q4 from Group Poorna Suraksha.

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 big rise in Individual WRP market share and renewal premium remains strong despite the tough environment. The company has also done well to maintain its focus on operational segments like enhanced sales training and digital on boarding which should yield well in the future. 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 Company's proprietary sales force and the Company website.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	16835	8209	105.08%	19057	-11.66%	35893	16641	115.69%
PBT	330	306	7.84%	311	6.11%	641	593	8.09%
PAT	303	302	0.33%	288	5.21%	591	587	0.68%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	16835	8209	105.08%	19057	-11.66%	35893	16641	115.69%
PBT	329	306	7.52%	310	6.13%	640	593	7.93%
PAT	302	302	0.00%	287	5.23%	589	586	0.51%

Detailed Results:

1. There was a flat YoY growth of 1.1% in the Value of New Business (VNB).
2. APE (Annualized Premium Equivalent) fell 22.9% YoY in Q2FY21. The non-linked savings portion was up 45.2% YoY while the linked segment was down 41.5% YoY.
3. The new business premium declined by 14% YoY in H1. The new business margin was at 26.3% in H1 vs 21% last year. the rise in the margin is due to the shift in product mix towards protection to 19.5% vs 15.1% in FY20.
4. Total AUM grew 18.6% since March 2020 in the Q2FY21 at Rs 1529 billion and had a 56:44 debt to equity mix. 95.8% of debt investments were in AAA-rated bonds.
5. The company maintained a solvency ratio of 205.5%.
6. The cost to the TWRP ratio declined by 230 bps to 14.3% in H1FY21.

Investor Conference Call Highlights

1. The company recently announced a partnership with Indusind Bank to serve the protection and long-term savings needs of its customers.
2. It has also partnered with NSDL Payments Bank, a subsidiary of NSDL, the largest depository in India.
3. The product mix for H1 was 46% linked, 48% non-linked, and 6% group savings.
4. ULIP has seen good QoQ growth of 95%.
5. Market share in the protection business rose to 12.5% from 11.8% last year.
6. Embedded value grew 12% YoY in H1.
7. ICICI Prudential Pension Fund Management Company saw AUM growth of 41% YoY with new subscriber share at 26.5% in H1 vs 14.8% last year.
8. Savings APE grew 102% QoQ while non-linked savings APE grew 120% QoQ.
9. The active adviser count in H1FY21 was about 90% of the number in H1FY20.
10. In H1, the company added 7,400 new agents, out of which 6,200 were added in Q2 alone.
11. It saw growth of over 300% for Q2 in annuity business through ICICI Bank.
12. Overall, the new business APE in Q2FY21 from ICICI Bank almost doubled as compared to Q1FY21.
13. The direct channel grew by 76% QoQ in Q2.
14. The company was the first one in the industry to pass on the reinsurance price hike for retail protection in Q2.
15. In H1, 97% of new business applications were initiated via a digital platform.
16. The individual APE declined 15-20% YoY in H1, while overall protection APE was down 10% YoY.
17. ICICI Bank is turning out to be more of a VNB channel rather than a top-line channel according to management.
18. The focus here will be the protection plan, then annuity then ULIP in that order. ICICI Bank accounts for 35% of the top line.
19. The company will continue to price products based on the underlying risk.
20. The target market for the company is 60 million in India with current penetration at only 10% for the industry.
21. The company is not aiming for bottom scraping in the protection segment.
22. The management doesn't expect any top-line growth in FY21.
23. Overall persistency improvement is driven by multiple factors such as the desire to continue with the product in the current health environment.
24. Agency channels have a similar margin profile as other channels.
25. 6% of APR comes from the direct channels.
26. Web aggregators are very small for the company vs other channels.
27. The management has stated that the margin for PAR products will never be the same as the non-par product.
28. The unit-linked base is getting reset this year. Starting from the fourth quarter onwards, the unit-linked base becomes more favourable which shows room for product mix expansion.
29. Group term insurance has seen good growth due to many clients taking in these policies for their employees.

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 as the product mix % of protection is rising. The core demand for new protection products remains intact. ULIPs have also shown significant recovery which is good for the company. It remains to be seen how the company will be able to fulfill its guidance for doubling FY19 VNB and whether there will not be any adverse shocks to the industry going forward. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	18458	12745	44.83%	16178	14.09%	34636	22389	54.70%
PBT	300	119	152.10%	388	-22.68%	687	497	38.23%
PAT	300	130	130.77%	391	-23.27%	691	502	37.65%

Detailed Results:

1. There was a 15% YoY fall in the Value of New Business (VNP). GWP rose by 22% YoY.
2. IRP (Individual Rated Premium) and APE (Annualized Premium Equivalent) declined 20% & 15% YoY while Total Protection NBP fell by 2% YoY.
3. The new business premium rose 15% YoY. The new business Margin was at 18.8%.
4. The company maintained a solvency ratio of 245%.
5. The company saw a fall in its private market share based on IRP to 20.7% from 23.1% a year ago.
6. Total AUM and Net Worth grew 20% and 20% YoY respectively in the half.
7. India Embedded Value rose 20% YoY.
8. As of 30th Sep 2020, the AUM was at Rs 1863.6 billion and had a 76:24 debt to equity mix. Over 90% of debt investments were in AAA-rated bonds.
9. The operating expense to the gross premium ratio declined 100 bps YoY to 5.4%.
10. The total Cost to gross premium ratio was at 8.6% from 10.4% a year ago.
11. The company reported minor improvement in persistency across all time periods.
12. 61st-month persistency has improved to 60.87% in H1 FY 2021 as compared to 57.48% in H1 FY 2020.
13. The company achieved market leadership in Total NBP with 24.5% private market share improving 270 bps YoY.
14. ULIP maintains an overall NBP share at 30% in H1.
15. In distribution channels, Banca channels account for 49% of APE while Agency and other accounts for 13% and 38% respectively.

Investor Conference Call Highlights

1. ULIPs saw a good recovery in Q2 with ticket sizes rising.
2. The company tied up with Yes Bank during the quarter.
3. The company will not be pushing specific products such as guaranteed or par products very aggressively as it wants to avoid negative consequences in the future. Given falling interest rates, the company will go slow on non-par products.
4. The management has stated that the overall product mix will be guided by the strategy in terms of what is suitable for the customer.
5. The management has stated that the company is not interested in selling long-term par products.
6. Agency channels are seeing growth reviving.
7. Although the overall value contribution of business from the YONO app is very small, its volumes are large and growing fast. YONO covered 4 lac lives and showed 58% growth in terms of Individual premium.
8. Business from online aggregators is still very small compared to other channels.
9. The credit protection business was flat YoY in Q2 while individual protection grew by 58% YoY.
10. The growth in the protection business is mainly volume-driven.
11. The company has filed the repriced product with the regulator to seek approval. As per management, the pricing will remain competitive.
12. Margins remained stable QoQ despite rising of ULIP in Q2 mainly due to Individual protection and credit protection products which yield high margins.
13. Within retail protection, the share of ROP is 85% while the rest is pure protection.
14. The ticket size of Individual protection remains at Rs 18,000 to Rs 20,000.
15. In ULIP, customer preference is towards debt investment (ULIP AUM mix - Debt 63%, equity 27%).
16. The number of agents on the field was 154,158 as of Sep 2020.
17. The interest rate sensitivity has changed mainly due to the change in the product mix.
18. The company is looking to develop its own online platform.

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 good growth in New business premium and ULIPs have seen good recovery with ticket sizes higher than last year. Despite the resurgence of ULIP, the margin profile remains stable due to the rise of high margin products in the product mix. The company is doing well to use the Yono app by SBI to drive volumes and is also planning to develop its own platform. The focus of the management remains to focus on products based on customer requirement & stay competitive and drive volumes in these segments. It remains to be seen whether the situation ahead unfolds within the company's expectations or whether we may see more uncertainty ahead. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	122	109	11.93%	77	58.44%	199	218	-8.72%
PBT	15	10	50.00%	0	3850.00%	14	20	-30.00%
PAT	13	8	62.50%	0	4433.33%	13	17	-23.53%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	602	488	23.36%	555	8.47%	1156	932	24.03%
PBT	89	61	45.90%	67	32.84%	156	106	47.17%
PAT	71	49	44.90%	53	33.96%	123	85	44.71%

Detailed Results:

1. The company continued its good run in FY21 with a consolidated revenue rise of 23% YoY and PAT rise of 45% YoY. Retail revenues rose 29% YoY.
2. EBITDA grew 42% YoY with margins at 16.5%.
3. The company has declared a second interim dividend of Rs 5 per share.
4. TV sales accounted for 64% of sales while web sales accounted for 36% in H1. Mobile sales accounted for 59% of web sales in H1.
5. Non jewellery items now account for 32% of sales in H1.
6. The company has a TV reach of 76 million households in the USA and 25 million households in the UK.
7. The revenue growth in different categories in Q2 is:
    1. TV sales: 24% up YoY (Rs 387 Cr)
    2. Web sales: 40.5% up YoY (Rs 208 Cr)
    3. B2B: 85.8% down YoY (Rs 4 Cr)
8. Shop LC revenues grew 19.5% YoY to $56.1 million in Q2 & 19.9% YoY to $107.1 million in H1.
9. TJC UK revenues grew 26.2% YoY to GBP 18.7 million in Q2 & 29.1% YoY to GBP 35.8 million in H1.
10. TV sales volumes have risen to 1.773 million in Q2 from 1.467 million last year. Correspondingly average selling price has fallen to $29.4 from $30.3 a year ago.

11. Web sales volumes have risen to 1.292 million from 0.943 million a year ago. The average selling price here has fallen to $21.7 from $22.3 a year ago.
12. Gross margins in Q2 have risen slightly to 62.9% from 61.3% last year while EBITDA margin has risen to 16.5% from 14.3% in the same period.
13. PAT margin in Q2 has also improved to 11.8% from 10.1% a year ago.
14. The company has a negative net debt of Rs 232 Cr.
15. Operating cash flow for H1 was at Rs 93 Cr while free cash flow was at Rs 77 Cr.
16. ROE in H1 was at 29% while ROCE was at 50%.

Investor Conference Call Highlights:

1. VGL's retail business volumes exceeded 3 million pieces in this quarter. The company served approximately 450,000 unique customers in H1 which was up 27% YoY.
2. In Shop LC, the company did theme events like Christmas in August that received a strong response, enhanced studio set-ups both indoor and outdoor and expanded marketplace presence to Overstock.com.
3. In TJC UK, the company launched QuickPay for preregistered customers on the website, Rising Auction was made available on the mobile app, expanded its presence to the Fruugo! and Wayfair marketplaces, launched social DR, & organized 2 virtual customer open days.
4. The company rolled out Microsoft D 365 ERP to both retail units in the U.K. and U.S. in the quarter.
5. The company added new geographies into its network in Q2. They were South Korea and Japan for beauty products and Vietnam for apparel.
6. VGL successfully commissioned a 1-megawatt solar PV power generation project under captive use in Bikaner, Rajasthan. The management expects renewable power to meet 100% of company requirements next year from the current 45%.
7. New registrations on a TTM basis came in at 260,000 compared to 180,000 last year.
8. Average customer spending was in 27 items vs 30 items a year ago.
9. The repeat rate is low due to a sharp increase in new customers in H1 this year.
10. The management expects to maintain at least 18-20% constant currency growth in retail revenues in H2.
11. In H1, the contribution of Budget Pay to retail revenues was 36%.
12. Capex incurred during H1 was at Rs 16 Cr.
13. The management has admitted that one reason for the rapid rise in customer addition has been COVID-19 as people have been confined to their homes. But product portfolio addition and merchandising efforts have also led to capitalizing on the opportunities created.
14. The management maintains a growth CAGR of 15-17% in the medium term.
15. 30% of expenses are variable having shipping costs, credit card expenses, marketplaces, etc in them. 10% is semi-variable which includes freights. The rest 60% is fixed in nature.
16. The essential category has gone down to 3.5% of sales in Q2 from 13.5% of sales in Q1. The drop-in space has been taken up by jewelery and other LSP categories.
17. In the non-jewellery, beauty product has been the most resilient segment for VGL. The second one would be home products like utensils, home décor, etc.
18. Other income has come down for the company due to a fall in global interest rates. Most of the company's funds are in the USA where rates have fallen low.
19. The company has hired a 20-year experienced veteran from HSN to lead its OTT initiative. VGL hopes to do a business of $2 million in FY21 in OTT which is less than 1% of overall sales. This figure is expected to accelerate in the near future.

20. The company is not in direct competition with Amazon and is even listed as a seller on Amazon. Amazon is expected to contribute to $13 million of sales in FY21 vs $4.5 million last year.
21. VGL's India unit has started to put products on Amazon Japan and Amazon Germany.
22. The newly revised app for VGL will be launched in the USA in Q4 as the company doesn't want to take chances of new customer experience during peak season.
23. The company doesn't provide Budget Pay on under-$20 products which contain the most essential items. In the long run, the management expects 40% to 45% of sales to come from Budget Pay.
24. The company is looking to do some manufacturing capacity additions in India in the next few years. This would add Rs 10 Cr to its normal Capex run rate of Rs 30-35 Cr per year.
25. The lifetime value of a customer who is omnichannel is approximately 15x than of the web-only customer and about 8x of a TV-only customer. Thus the company is looking to transition a single channel customer to as many channels as possible.
26. Almost 11% of customers are now omnichannel.
27. VGL is creating a team for branding and looking to hire professionals to develop in-house brands and product merchandising and strengthening the team from a strategic point of view, as its competitors are doing.
28. The current OTA network reaches 20 million households and the company is aiming to reach all of these from its current level of 13-14 million in the USA.

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 another blockbuster quarter with profit growth of 45% 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 segments like beauty and home care. The company is also looking to 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 sellers 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	118	414	-71.50%	58	103.45%	176	991	-82.24%
PBT	-30	36	-183.33%	-57	47.37%	-87	92	-194.57%
PAT	-22	30	-173.33%	-42	47.62%	-64	68	-194.12%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	108	415	-73.98%	58	86.21%	166	982	-83.10%
PBT	-44	41	-207.32%	-67	34.33%	-111	95	-216.84%
PAT	-35	33	-206.06%	-51	31.37%	-87	68	-227.94%

Detailed Results:

1. The results for the quarter were dismal with 72% & 74% YoY decline in standalone and consolidated revenues respectively.
2. The profits for the quarter were in negative territory in both standalone & consolidated terms.
3. The company saw good performance on QoQ basis in both standalone and consolidated terms.
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 by 41% YoY. Employee cost was lower by 49% YoY & Other expenses were lower by 66% YoY.
6. The company has cash & cash equivalents of Rs 206 Cr as of 30th Sep 2020.
7. Net borrowings have risen to Rs 204 Cr from Rs 77 Cr last year.
8. Net debt however was near 0 vs Rs 60 Cr last year.

Investor Conference Call Highlights

1. Bangladesh operations started only with producing masks. The company is now also doing a tailoring operation in soft luggage in Bangladesh.
2. VIP is selling Rs 2-3 Cr worth of masks per month now.
3. The management expects the company to come back to pre-covid levels in at least 1-1.5 years. The industry should take 2-3 years to normalize.

4. Bangladesh operations are key going forward. Right now only 50% of Bangladesh's capacity is enough for domestic sales. The company is looking to start international sales from this location to reduce dependence on the domestic market.
5. Ecommerce sales have come up a lot since COVID-19 and have grown 40% YoY. This channel used to account for 7-10% of sales and now it counts for 27% of total sales for the company.
6. The company will be pursuing both the online market site sales from Flipkart & Amazon and its own direct to customer sales from the e-commerce mechanism.
7. In the long run, this channel should account for 20-25% of sales.
8. Although gross margins for e-commerce sales are expected to be lower than in-store sales, the company will specifically be looking to make products suited for the channel so that the overall margin profile is not affected too much.
9. Since all companies in the industry have high inventory levels, discounting has been greater than before in order to liquidate the stock that they have built up. This has led to a fall in average selling price. This is true for VIP as well.
10. The major cost initiatives for VIP have happened on the manpower and fixed EVO operations.
11. The recovery for the industry will be dependent on the type of recovery model that India will follow. If it follows the Western model of repeated small lockdowns, then recovery will be slower than when compared to the Asian model of recovery.
12. The mask business should provide revenues of Rs 18 Cr given the current run rate. The company is still looking to enter into other new segments but is not in any rush to do so and will do it in their own time.
13. The company is also looking to replace the imported handbags which they get from China with its own manufactured products from Bangladesh. This should provide a good boost to the handbag market.
14. The company will be able to get a better picture of the processing of the pending insurance claim of Rs 48 Cr in Q3.
15. The fixed cost saving for the year is estimated to be at Rs 180 Cr. Around 50% of this is expected to be sustainable.
16. The business demand from travel and wedding is almost at 50-50. The company expects the resurgence from wedding demand to come back next summer.
17. The company has a leading market share from weddings in Northern and Eastern India both through the flagship VIP and Aristocrat brands.
18. The company is also looking to set up its own manufacturing facility for soft luggage in Eastern India to reduce dependence on external vendors for soft luggage.
19. The management had stated that the company will be looking to sell lower-end products on e-commerce because the majority of the business in the channel is volume-driven at the lower end. The company can gain a big market share here as the unorganized sector cannot provide the volumes required for the channel.
20. Backpacks are still the fastest-growing segment for the company but its growth has slowed down as demand was driven primarily by schools and colleges. The volumes & growth for the category will all depend on how the schools open and how offices open. This category is also driven mainly in the lower end and through e-commerce sales. The company is best positioned to compete in this category due to its Bangladesh facility which has low labour cost.
21. The company has closed 100 out of its 250 exclusive branded outlets. Currently, 70-75% of its stores are open.

22. The company sold off the Haridwar plant as it could make the same products in its Nashik facility. The company had started running it as it was getting a tax break from it which expired in 2012 and now there isn't much of a margin differential between this plant and Nashik plant.
23. The company is only selling the land plot and building in Haridwar and it is shifting all of the machinery to the Nashik location. The company is looking to make around Rs 12 Cr of profit from the Sale of Rs 20-25 Cr.
24. The basic strategy of VIP in international sales will be to sell on price leveraging the very low-cost manufacturing operations in Bangladesh.

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 is looking to enter into international operations by leveraging its low-cost manufacturing operations in Bangladesh. It has also seen good demand from the mask category and is looking to enter other adjacent segments. As per the management, the demand scenario at the moment is very uncertain and it will take at least 1-1.5 years to come back to pre-covid levels. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1498	1184	26.52%	1410	6.24%	2908	2353	23.59%
PBT	409	217	88.48%	264	54.92%	673	476	41.39%
PAT	322	172	87.21%	201	60.20%	523	362	44.48%

Detailed Results:

1. The Q2 revenues for the company rose 26.5% YoY while profits rose 87% YoY.
2. The provisioning for the quarter was back to normal levels at Rs 57 Cr vs Rs 61 Cr in Q1FY20.
3. The AUM for the company grew 10% YoY, while disbursements in Q2 was at 71% of Q2FY20.
4. Deposits have gone up 22% YoY.
5. CASA Ratio was at 21% in Q2.
6. The yield on AUM stayed stable at 14.4% in H1 vs 14.7% a year ago. The cost of funds fell to 7.1% in H1 vs 7.9% a year ago.
7. ROE for H1 fell by 140 bps YoY to 16.1%. On including the profit from the sale of a stake in Aavas, the ROE goes up 80 bps YoY to 22.5% in H1.
8. The cost to income ratio for Q2 was at 54.1% vs 53.9% a year ago. The same in H1 was at 47.7% vs 56.6% a year ago.
9. Opex was at 3.4% in Q2 vs 3.7% a year ago.

10. GNPAs declined to 1.5% vs 2% a year ago and NNPA followed a similar pattern and declined to 0.5% in Q2 vs 1.1% last year.
11. PCR rose to 71.1%% in Q2.
12. CRAR for Q2 was maintained at 21.5% with tier 1 capital at 18.3%.
13. NII for the SFB rose 24% YoY in Q2 and 27% YoY in H1 while other income fell 6% YoY in Q2 and rose 19% YoY in H1.
14. The company maintained a comfortable LCR of 140% in the quarter.
15. Retail deposits (CASA + Retail TD) now at 54% of deposits vs 45% in Q1FY21 and 41% in Q2FY20.
16. Rajasthan remains the biggest market for the company with 42% of AUM disbursed and 27% deposit book.
17. Overall collection efficiency post moratorium was at 78% vs the normal 80%.
18. Overall collection efficiency was at 96% in Q2 against monthly billing.
19. The Bank carries Rs 278 Cr of COVID-19 related provisions.

Investor Conference Call Highlights:

1. AU recently piloted an end-to-end digital lending platform for personal loans, where it integrated 48 different APIs in 1 system, including its own credit rule engine for credit underwriting and all the decision making of these engines.
2. It has also gone live with Maruti Suzuki for an end-to-end lending journey for buying personal cars. Using a completely digital platform with other OEMs is also in the works.
3. The bank revamped its internet banking system and mobile banking platform.
4. For the credit card journey, AU has partnered with Fiserv which is a global leader in credit card platforms.
5. The retail-led focus has helped the bank to retire 2,000-plus crores of bank deposits in Q2. This has led to an 80 bps YoY reduction in the cost of deposits.
6. The bank will be adding new branches in Bhuvaneshwar, Hyderabad, and Kolkata.
7. As part of its retail penetration strategy, the company is not only providing offers on national brands like Amazon, Myntra, Swiggy, but also in local city-based merchants and shops like Laxmi Misthan Bhandar which is a historical sweet shop in Jaipur.
8. Customers who had availed complete moratorium has reduced from 11% in June to 5.5% of gross advances as on 31st of August 2020.
9. 5% of this 5.5% of customers have paid 1 EMI or more in September and October and are active again.
10. The bank is not looking to create extra provisions and will review and decide in the coming quarters whether any new provisions need to be created.

11. The larger focus in terms of activation of customers is to get the customers to primarily transact using the AU Bank account. This is done by providing access and operations across all digital channels and mediums and releasing strong offers for use of debit cards or payment mechanisms in different online platforms.
12. The company is reducing interest rates in lower buckets but is keeping the flagship rate of 7% in the bucket of 10 lakh and above.
13. The company is looking at a strategy where at least 1% of customers have at least 5, 6 products in use at a time. The bank is striving is to increase wallet share for each customer and to ensure the longer customer stays.
14. The bank is looking to maintain the interest benefit of 1.25-1.5% in TD as compared to the top 4 private banks in India to attract new customers from PSU and large private sector banks.
15. The retention rate in terms of retail TD is at 70% which is around the industry average.
16. The long-term general strategy for AU is to build the retail and granular deposit franchise, which is primarily led by the transacting customers and the active customers on the bank side.
17. The management believes that deposit generation and deposit retention will revolve around how well the bank is equipped in terms of their digital journeys. Thus all efforts are being concentrated on building a digitally-led retail granular franchise.
18. The bank has been able to generate growth in CASA mainly due to focusing on targeted products for specific customer bases like nonresident Indians, housewives, retired pensioners, and senior citizens.
19. Disbursement in Sep-20 was at 99% of Sep-19.
20. The bank has no restructured cases to date and it has not received any inquiries regarding it.

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 itself 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 seen good growth in the deposit franchise in Q2. The bank has also seen collections improving steadily and reach near pre-covid levels. The bank remains committed to its goal to build a granular customer led by digital and this is reflected in its efforts in providing different digital products and offers to its existing customers. It remains to be seen how the whole COVID-19 situation pans out and whether there are any surprises in store for the banking industry in the near future. 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.

Credit Access 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	471	393	19.85%	510	-7.65%	981	769	27.57%
PBT	105	127	-17.32%	86	22.09%	190	275	-30.91%
PAT	78	101	-22.77%	64	21.88%	142	197	-27.92%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	577	393	46.82%	620	-6.94%	1197	770	55.45%
PBT	107	127	-15.75%	100	7.00%	207	275	-24.73%
PAT	80	101	-20.79%	75	6.67%	154	197	-21.83%

Detailed Results:

1. The company had a mixed quarter with 20% YoY growth in standalone revenues. The consolidated numbers are not comparable due to the addition of Madura MFI revenues in FY21 which was not present last year.
2. The standalone profits for the company fell 23% YoY while PBT declined 17% due to a YoY increase in expenses (impairment of financial instruments) and increased provisions.
3. GLP grew 41.5% YoY to Rs 11,183 Cr. Standalone GLP grew 16.5% YoY. MMFL GLP fell 3.6% YoY.
4. The customer base expanded 47% YoY to 3.88 million. The standalone customer base grew to 2.802 million which is up 6.1% YoY. MMFL's customer base grew by 2.6% YoY.

5. NII has risen 31.6% YoY to Rs 330.9 Cr. PPOP grew 26.9% YoY at Rs 196.9 Cr.
6. Total ECL provisions were 5.35% in CAGL and 4.3% in MMFL.
7. Overall RoA and RoE were at 2.4% and 10.7%.
8. Overall GNPA was at 1.77% while NNPA was at 0%.
9. CRAR: CAGL 26.4% (Tier 1: 25.6%), MMFL 25.0% (Tier 1: 21.0%).
10. Collection efficiency at 89% for CAGL in Oct.
11. Standalone debt to equity was at 2.8 times. MMFL debt to equity was at 3.8 times.
12. Standalone cost to income ratios was at 39.2% and Opex to GLP was at 4.6%.
13. The weighted average cost of borrowing was at 11.1% vs 12.3% a year ago.
14. Positive ALM mismatch with an average maturity of assets at 15.3 months and average maturity of liabilities at 23.4 months.
15. Disbursements in Q2 was at Rs 1420 Cr.
16. GL loans accounted for 95.3% of total loans with the rest being retail finance.
17. GL loan usage breakup was:
    1. Animal Husbandry: 45.2%
    2. Trading: 21.8%
    3. Partly Agri: 14.7%
    4. Production: 8.5%
    5. Housing: 3.8%
    6. Education: 0.4%
    7. Others: 5.6%
18. Only 1 district now has >4% of the total loan portfolio.
19. Karnataka remains the biggest market for the company with 39.6% of GLP. Maharashtra comes in second with 24.8% of GLP and Tamil Nadu is third with 19.8% of GLP.

Investor Conference Call Highlights:

1. In the case of MMFL, the collection efficiency improved from 54% in June to 83% in September and 85% in October.
2. Collections temporarily slowed in the second half of October due to cyclonic floods in certain districts of Maharashtra and Karnataka, intermittent lockdown imposed in Chhattisgarh, and a brief period of festivities in October.
3. The standalone liquidity position further improved during the second quarter, with a cash & bank balance of Rs 1,662 Cr as of 30 Sep 2020.
4. CAGL successfully completed QIP of Rs 800 Cr in Oct.

5. 8% of CAGL customers hadn't made any payments in Sep and 24% of this set have started repayments in Oct. Similarly, 7% of MMFL customers hadn't made any payments in Sep and 33% of this set have started repayments in Oct.
6. The majority of the non-paying customer pool was located in Southern Maharashtra.
7. Only 2-3% of customers have not paid anything in the last 4-5 months.
8. Collection efficiencies are expected to normalize and come back to pre-covid levels by December for everywhere except Maharashtra.
9. COVID provisions taken in Q2 were at Rs 66 Cr for CAGL and Rs 25 Cr for MMFL.
10. The company has undrawn credit lines of Rs 1240 Cr with Rs 980 Cr for CAGL & Rs 260 Cr for MMFL.
11. Disbursements in Q2 were made only to existing customers with good repayment history.
12. The company is not providing top-up loans for its customers at all.
13. New customers accounted for 40% of disbursements in Oct.
14. The management expects AUM growth for FY21 to be at around 10-12%.
15. The management is expecting an expected credit cost for COVID of a maximum of 3.75-4%.
16. H2 growth should be back to normal for both CAGL & MMFL.
17. >80% of customers have made full payments in Oct for CAGL.
18. The management has admitted that the customer count has indeed fallen QoQ but it has stabilized and should start increasing again now.
19. The management has stated that the customer shortfall should be temporary as these customers should be back to take fresh loans.
20. Opex is expected to be at 4.8-4.9% an annual basis according to management.
21. The company has not restructured any loans and have only extended the tenure of the payment period while keeping EMI the same.
22. Long-term credit costs are expected to be at 1.1-1.25% due to a change in customer repayment behaviour.
23. The merger process should be completed by Q1FY22 according to management.

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 mixed Q2 performance due to the challenges from state lockdowns and cyclonic floods. The company was able to maintain GLP growth but saw operating expenses rise QoQ while increasing collection efficiency once lockdown ended. The company's acquisition of Madura Microfinance is expected to be done by Q1FY22. It remains to be seen whether the company will be able to maintain its current revenue growth pace of >30% & AUM growth of 10-12% 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 Small Finance Bank

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.

Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	861	703	22.48%	751	14.65%	1612	1366	18.01%
PBT	136	86	58.14%	74	83.78%	209	175	19.43%
PAT	103	49	110.20%	58	77.59%	161	107	50.47%

Detailed Results:

1. The revenues for the company rose 22.5% YoY while PBT & PAT rose 58% and 110% YoY respectively.
2. The Advances for the company grew 26% YoY in Q2, while disbursements were at Rs 1902 Cr a decline of 20% YoY. 77.37% of advances are secured loans.
3. Deposits excluding CD grew to Rs 12,588 Cr which is up 31% YoY and 10% QoQ. Retail TD grew 98% YoY & 14% QoQ to Rs 4,983 Cr. Savings deposits grew 53% YoY & 41% QoQ.
4. CASA ratio for the quarter was 25% at Rs 3,246 Cr. LCR is at 126%.
5. The bank made a COVID-19 provision of Rs 26 Cr in Q2. Total provisioning for COVID-19 to date came up to Rs 170.63 Cr.
6. GNPAs were at 2.39% & PCR was at 58.84%.
7. The cost to income has gone down to 58.15% in Q2 from 68.35% last year.
8. NIM was at 9.02% in Q2 and NII rose 31% YoY. The cost of funds was at 7.36%.
9. RoA & RoE were at 1.88% and 14.44% respectively for Q2.
10. Total CRAR was at 20.93% with Tier 1 at 20.16%.
11. The loan book breakup is as follows:
    1. Microfinance: 22% of the loan book, 14% YoY growth
    2. Small Business Loan: 42% of the loan book, 30% YoY growth

3. Vehicle Finance: 25% of the loan book, 28% YoY growth
4. MSE Finance: 6% of the loan book, ~100% YoY growth
5. NBFC: 4% of the loan book,
6. Others: 1% of the loan book, 25% YoY decline

12. Tamil Nadu is the dominant state for the company with 54% of advances & 28% of deposits belonging to this geography.
13. The yield on on-book advances is at 19.26%.
14. The company maintained a cash balance of Rs 426 Cr.

Investor Conference Call Highlights:

1. Management expects collections & disbursements to come back to pre-covid levels.
2. H2 should have better growth recovery.
3. The company introduced gold loans and used vehicle finance products in Q2.
4. The target customer set for gold loans is MFI customers. The used car production is expected to be leveraged using the existing vehicle finance branch network.
5. The company added 80,000 customers through digital means and sold 32,000 Fastag accounts in Q2. The bank has 15000 account holders in areas with no bank branch.
6. The bank aims to reach RoA of 2.25% & RoE of 16% in the coming quarters.
7. The rescheduling requests have come for less than 0.5% of loans and the management doesn't expect this number to cross 1%.
8. Cost to income can rise to 60% but it is expected to stay stable at this level.
9. All rescheduling requests will be looked into individually and will be considered on a case to case basis.
10. Billing efficiency is at 87% and collection efficiency is in the mid-90s.
11. The main area for collections to catch up in microfinance.
12. NIMs & expense ratios should come down as product diversification increases in the long term.
13. Around 3-4% have not paid 2 EMIs since August end.
14. The management thinks that a 1% provision is sufficient for COVID-19 and there will not be any additional provisions for it in Q3 & Q4.
15. For a vehicle loan, the recovery on sale of the underlying asset is 60-65%.
16. The disbursement trends in the affordable housing segment have been on the up-trend and the overall uptick in disbursements is mainly due to the under penetration for the bank in its operating segments.

17. The disbursement in vehicle finance is shifting from heavy vehicles to LCVs where the yields are greater.
18. Most of the money has already been invested and the challenge right now is to leverage the existing facilities. The management states that the current branch network is sufficient to double its liability base. There is also a lot of leverage pending on the asset side as all products are not available in all branches.
19. The cost of funds is expected to come down in the medium term as operating leverage and digital share increase. AUM growth is expected to be at the same pace in H2 as in H1. The target growth rate is 30-40%.
20. 58-60% of the deposit book are primary or active customers at present.
21. The bank sources around 5000-7000 elite customers per quarter. Around half of these are upgraded from lower accounts.

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 listed now. 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 introducing new products like gold loan and used vehicle loan which is aimed at existing customers from microfinance and vehicle finance divisions. 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 whether the bank will be able to maintain its growth momentum and achieve the ambitious liability growth from the current branch network. Nonetheless, given the company's history of consistent performance and the highly anticipated IPO of its SFB, Equitas Small Finance Bank 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	818	729	12.21%	775	5.55%	1593	1435	11.01%
PBT	132	117	12.82%	74	78.38%	206	259	-20.46%
PAT	96	93	3.23%	55	74.55%	151	187	-19.25%

Detailed Results:

1. The company had a modest quarter with a 12% growth in YoY revenues. The profits for the company rose 3% YoY in Q2. These figures were subdued because of the increased provision made of Rs 100 Cr in Q2 vs Rs 25 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 13890 Cr registering a YoY growth of 8%.
4. The non-MicroBanking portfolio now contributes 24% to the portfolio against 21% as of last year.
5. Secured loans now constitute 23% of all loans as compared to 19% a year ago.
6. GNPA in Q1 was at 1% while NNPA was at 0%, in line with the interim order of Hon. Supreme Court. Without this order, GNPA would be at 1.2% and NNPA would be at 0.3%.
7. Deposits were at Rs 10743 Cr covering 77% of total loans.
8. Retail deposits are now at 49% of total deposits vs 42% a year ago. CASA has improved to 16% vs 12% a year ago.
9. Net Interest Income rose 21% YoY at Rs 470 Cr.
10. Net interest margin declined slightly to 10.2% in Q2FY21 vs 10.8% a year ago.

11. The cost to income ratio was reduced to 56.6% from 69.5% a year ago.
12. ROA and ROE for the company were at 2% (vs 2.4% a year ago) and 11.6% (vs 18.9% a year ago) in Q2.
13. The company maintained an LCR of 177%. CAR was at 31% with tier 1 capital at 30%.
14. The number of customers was at 55.3 lakh.
15. Collection efficiency was at 88% for Oct.
16. Pre-Provision Operating Profit was at Rs 232 Cr which is a YoY growth of 33%.
17. Q2 disbursement was at Rs 1458 Cr which is around half of the pre-COVID levels.
18. 1 lakh new deposit accounts opened during H1-FY21; of which around 3 lakh accounts were new-to-bank.
19. Digital SA/ TD acquired ~39,000 customers in H1-FY21.
20. The cost of deposits was at 7.4% in Q2 vs 7.9% in March.
21. New product launches in Q2 were:
    1. Gold Loan product targeting MFI customers.
    2. PMSvanidhiLoan (Street vendor program).
    3. Pre-approved loans for Microbankingcustomers; scaled to 9% of clients
22. Collection efficiency in MSE was at 86% in Oct. with disbursements of Rs 92 Cr in Q2.
23. Collection efficiency in Affordable Housing was at 93% in Oct. with disbursements of Rs 116 Cr in Q2.
24. Collection efficiency in Personal Loan was at 88% in Oct. with disbursements of Rs 12 Cr in Q2.
25. Collection efficiency in Vehicle Loan was at 91% in Oct. with disbursements of Rs 6 Cr in Q2.
26. Digital transactions at 56% in Q2-FY21.
27. Digital collection at 28% vs 1% at the start of FY21.
28. Low Collections were only in Maharashtra at 79%, 78% in WB, 74% in Assam & 83% in Punjab in Oct.
29. Total provisions in Q2 were at Rs 470 Cr.
30. The top 3 states Tamil Nadu (16.2%), Karnataka (14.5%), and West Bengal (14%) account for 44.7% of total advances.
31. 95% of MFI loans were given to repeat customers in Q2.
32. Group loans account for 64% of gross advances.
33. The average ticket size in group loans is Rs 40293.

Investor Conference Call Highlights:

1. 91% of our borrowers have started paying back after the moratorium got over.
2. The 4 states with lower than 85% collections were mainly due to localized issues at the respective states.
3. The company has activated all of its banking branches for personal loans and vehicle loans.
4. The company is focusing on trying to reduce its cost of the model by trying to bring in new key customers.
5. The company will be focused on keeping credit costs lower than the industry average according to management.
6. The lower collections are not due to intentional non-repayment but due to delay or disruption in collections at the ground level.
7. The company is maintaining a 2.2% provision on the micro banking book and 3.8% overall.
8. There hasn't been any big change in credit discipline since the rise of digital collections.
9. The collections in WB have been impacted mainly due to restrictions in mobility and extended intermittent lockdowns in the state.
10. The bank is maintaining a cautious underwriting stance and is not going aggressive in any geographies.
11. Absolute Opex may also rise in the future as the company makes investments into technology but the proportion to revenue will remain range-bound.
12. The company provides a yield of 650 bps in the retail term deposits and 555 bps in the institutional term deposits.
13. 86% of the customers have made full EMI payment and 2% have made partial payment in Oct.
14. There isn't any convenience fee charge for cash transactions.
15. The management hopes that the bank can reach 95% of collections in Q3.
16. The management hopes that the bank gets permission to reverse merge and not go through the dilution process.
17. The bank doesn't have any issues with collections in Karnataka as the disruption in the state is mainly in the Mangalore belt where the company doesn't have any presence.
18. The company will continue to engage its customers on the issue of restructuring the debt and will make a decision on it in Dec.

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 had a decent quarter with modest revenue growth but good pre-provision profit growth of above 60% YoY. It has also seen encouraging results in its digital acquisition efforts with 39000 new customers in digital in H1. The company has also seen a good bounce back in collections. It is also launching new products like gold loans and targeted loans at street vendors, etc which may see good uptake. 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 bounce back to pre-covid levels in the near future. 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

AAVAS Financiers

Financial Results & Highlights

Brief Company Introduction

Aavas Financiers Limited provides housing loans to customers belonging to low and middle income segments in semi-urban and rural areas in India. The company offers home loans for flats, houses, and bungalows, as well as resale properties; land purchase and construction loans, including finance for self-construction of residential house; and home improvement loans, which include loans for tiling or flooring, plaster, painting, etc. It also provides home equity loans; and micro, small, and medium enterprise loans for business expansion, purchase of equipment, working capital, etc., as well as balance transfer products. The company was formerly known as AU Housing Finance Limited and changed its name to Aavas Financiers Limited in February 2017.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	270	231	16.88%	234	15.38%	504	429	17.48%
PBT	85	91	-6.59%	63	34.92%	148	155	-4.52%
PAT	66	76	-13.16%	50	32.00%	116	121	-4.13%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	270	231	16.88%	234	15.38%	504	429	17.48%
PBT	84	91	-7.69%	63	33.33%	147	155	-5.16%
PAT	66	76	-13.16%	50	32.00%	116	121	-4.13%

Detailed Results:

1. The company had a mixed quarter with a 17% YoY rise in revenues and 13% YoY fall in PAT.
2. AUM growth for the company was 23.9% YoY to Rs 8366.9 Cr as of 30th Sep 2020.
3. Disbursements in H1 have fallen 33.1% YoY mainly due to the tough Q1.
4. Gross Stage 3 loans were at 0.47% vs 0.62% a year ago. Net Stage 3 loans were at 0.32%.
5. NIM in H1 has gone down 187 bps YoY to 6.82%.
6. Product breakup was 73.5% Home Loans & 26.5% Other Mortgages Loans.
7. Around 64.9% of existing customers are self-employed while the rest are salaried.
8. 8% of customers are retail-driven.
9. The company has kept the yield spread at a stable 5.62% in Sep ’20.

10. Opex to AUM in H1 was down to 2.8% from 3.28% a year ago.
11. ROA for H1 was at 2.89%.
12. The company has no CP exposure and has recently raised borrowings of Rs 519.9 Cr for 167 months at 7%.
13. The company maintains a positive ALM mismatch across all time periods and has an average tenure of outstanding borrowing at 130 months.
14. It has total liquidity of Rs 2587 Cr as of 30th Sep 2020.
15. It maintained a CAR of 53.08% with Tier 1 capital at 50.84%.
16. Interest Income has risen 29.2% YoY in Q2 while interest expenses have risen 35.8% YoY.

Investor Conference Call Highlights

1. ICRA has updated the long-term credit rating for AAVAS from A+/Positive outlook to AA-/Stable during this quarter.
2. The total number of live accounts stands at 1,12,500.
3. Around 0.5% of the total portfolio has not paid a single installment since March.
4. Total moratorium as of August was at 10% while this number came down to 3.2% in Sep.
5. The company will continue its pace of branch expansion and will finish its 5-year block in March. From March onwards it will embark on a new 5-year block to expand into 4-5 states.
6. The management hopes to reach pre-covid sourcing & disbursement levels in the coming quarters.
7. 1+DPD is around 5-6% in this business currently.
8. The company has an NPA of Rs 31 Cr currently against which around 22% is normal NPA. The company has also done additional COVID provisioning of Rs 15 Cr. Overall provisioning is sufficient to cover up to NPA of 2%.
9. The company is always aiming to achieve improvement in Opex to AUM of 35-40 bps each year and the management is confident that this will be achieved this year as well. This should continue for 2-3 years.
10. Currently, there haven't been any requests for the restructuring of loans from any customer.
11. In Q2, top-up loans were less than 1% of total disbursement in the quarter.
12. The company has around 800 people in underwriting and collections combined. The breakup is around 50-50.
13. 94% of customers have paid in full while 3% have not paid even part installment in Oct.
14. The company aims to maintain ROA above 2.5% and has been successful in doing so for H1.
15. The company aims to reach Opex to AUM of 1.75-2% in the next 2-4 years.
16. In business terms, the company is sourcing around 9,000, 10,000 files per month. The company has a policy of continuously invest into capacity ensuring that it always has spare capacity for an uptick in demand.
17. Today 100% of leads come from mobile app & 99% of repayments are from digital means.
18. The company has also implemented a 100% CRM. It has also ensured that 85% of customer requirements can be gathered through a mobile app without any need to go to a branch.
19. The company is also cybersecurity compliant with a bank-level kind of security framework.
20. The company is also constantly investing to stay at the forefront of technology for the long term in this field.
21. The average cost of borrowing is at 7.9%.

Analyst's View:

Aavas Financiers is a fast-growing housing finance company in India. What sets it apart from the large housing finance players like HDFC, LIC Housing Finance & Repco is the space they cater to. The average ticket size of loans is less than 9 lacs against more than 14 lacs for others. Aavas caters to smaller towns where the population is less than 10 lacs. Throughout the financial crisis which started after the IL&FS default, Aavas has managed to sail through without any major hit on the books. Given the positive cues from the real estate sector in recent times, Aavas could be a big beneficiary going forward. However, stretched valuations may have factored in most of the positives. Nevertheless, it is a good business to track in the housing finance space.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	5790	5698	1.61%	5902	-1.90%	11692	11003	6.26%
PBT	1186	1860	-36.24%	1184	0.17%	2370	3604	-34.24%
PAT	877	1377	-36.31%	870	0.80%	1746	2501	-30.19%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	6523	6323	3.16%	6650	-1.91%	13173	12131	8.59%
PBT	1305	2022	-35.46%	1310	-0.38%	2615	3874	-32.50%
PAT	965	1506	-35.92%	962	0.31%	1927	2702	-28.68%

Detailed Results:

1. The company had a flat Q2 with consolidated revenue growth of 3% YoY. PAT was down 36% YoY in Q2.
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 1% YoY. The Company estimates AUM growth for FY21 at 6-7%.
4. The Company booked 3.62 MM new loans during Q2 FY21 as against 6.47 MM in Q2 FY20.
5. In Sep '20, urban consumption businesses (B2B) were at 72%, rural consumption business (B2B) at 91%, credit card origination was at 73%, e-commerce was at 75% and auto finance business was at 54% of last year's volumes.
6. In Sep '20, total loan disbursements were at 62% of last year's volumes.
7. The Company acquired 1.22 MM new customers in the current quarter. Total customer franchise stood at 44.11 MM as of 30 September 2020, a growth of 14% YoY. The cross-sell franchise stood at 23.87 MM.
8. Existing customers contributed to 66% of new loans booked during Q2 FY21.

9. In Q2 FY21, the Company has converted ₹1,750 crores of term loans into Flexi loans to provide customers the flexibility of lower repayment and higher prepayment.
10. As of 20 October 2020, the Company had a consolidated liquidity buffer of ₹24,775 Cr and SLR investments of Rs. 2,582 Cr.
11. Deposits book stood at ₹21,669 Cr, a growth of 23% YoY. It accounted for 17% of total assets.
12. The Retail: Corporate mix stood at 75: 25 in Q2 FY21 as against 56: 44 in Q2FY20.
13. NII grew by 4% but opex declined by 16%. Total Opex to net interest income came down to 27.8% in Q2FY21 vs 34.6% in Q2FY20.
14. During the quarter, the Company has further increased its provisioning coverage for stage 1 and 2 assets by ₹1,370 Cr taking it to ₹5,099 Cr as of 30 September 2020.
15. Against 15.7% of the moratorium book in June 2020, stage 2 (1 and 2 installments overdue) book as of 30 September 2020 stood at 8.0% versus 2.3% in Q2FY20.
16. The Company has taken a loan loss provision of ₹3,386 Cr against its credit cost estimate of ₹6,000-6,300 Cr for FY21.
17. Consolidated PBT for Q2 contracted by 35% YoY due to additional provisions of Rs 1370 Cr.
18. CRAR remains at 26.6% while Tier-1 capital was at 23%.
19. GNPA was at 1.03% while NNPA was at 0.37%. The company also maintained a PCR of 64%.
20. The breakup of growth in the consolidated loan book is as follows:
    1. Auto Finance: 7% YoY
    2. Sales Finance: -42% YoY
    3. Consumer B2C: 5% YoY
    4. Rural Sales Finance: -19% YoY
    5. Rural B2C: 15% YoY
    6. SME Lending: 2% YoY
    7. Securities Lending: -26% YoY
    8. Commercial Lending: 5% YoY
    9. Mortgage lending: 14% YoY
21. Bajaj Housing Finance had a mixed quarter with AUM growth of 30% YoY and a decline in net interest income of 6% YoY. PAT declined 36% YoY for this subsidiary. The entity's Opex to NII improved to 28.2% in Q2FY21 vs 33.3% in Q2FY20.
22. Bajaj Financial Securities Ltd (BFinsec) made a net profit of ₹2 Cr in Q2 FY21.

Investor Conference Call Highlights:

1. Opex for Q2 was down Rs 224 Cr out of which Rs 120 Cr is permanent cost reduction.
2. The management wants to act cautiously in current times and is willing to front-load losses and backload income so that once normalcy comes back, the company will have additional momentum to grow.
3. Around 70% of the total OEM subvention share used to be Bajaj Finance. This number has gone down to 60-63% but is expected to rise back to previous levels in the near future.
4. The company is focussing on a primary transformation and has created a frame called 3-in-1 where fundamentally in 3 clicks, a customer should be able to do away with financial service products across loan, insurance, mutual fund, cards, etc.
5. Total outstanding Flexi loans is around Rs 43,000 Cr. This is across mortgages to personal loans to gold loans, each part of the company portfolio is covered in this figure. Flexi loans are offered only in B2C loans.
6. BHFL is focused on going back to pre-COVID growth levels by March-April 2021. It currently relies entirely on bank funding and once it completes 3 years of existence, it will have access to money market funding which should aid the entity in its growth quest.
7. The management expects Opex to NII to go above 30% for the rest of the year ahead but overall Opex to NII for FY21 should remain below 30%.
8. The company is still waiting for clarification from the Govt of India on the issue of interest on interest and how to handle it going forward.
9. The company aims to become among the top 3,4 in the country in the credit card business. It already has a strategic and important partnership with RBL and may require an additional such partnership to attain its goals.
10. The situation in 2 wheeler and 3 wheeler loans is very different as 3 wheelers customers will only see demand coming back once point-to-point transport necessity comes back. Till then, the company has no option but to provide restructuring options to those customers.
11. The cross-sell opportunity for the 23 million is available for card business, mortgage business, personal loan business, insurance business, all businesses. It is harder to estimate the opportunity for just a few segments alone.
12. Out of the 23 million, the company is ready to give personal loans to 11.2 million.
13. The management firmly believes that as the franchise grows, e-commerce will also grow along with it.
14. On a rolling basis, annually, 10% of eligible customers land up taking personal loans. This number is expected to multiply as 3-in-1 financial services come into place.
15. The management states that fresh customers default at a much lower rate as they mature into the cycle, depending on what type of loan their bounce rate increases.

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 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 taking the decision to front-load losses and backload income. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1294	1077	20.15%	1226	5.55%	2520	2028	24.26%
PBT	544	428	27.10%	495	9.90%	1039	763	36.17%
PAT	406	336	20.83%	369	10.03%	775	556	39.39%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1578	1390	13.53%	1516	4.09%	3094	2591	19.41%
PBT	544	548	-0.73%	492	10.57%	1037	955	8.59%
PAT	405	433	-6.47%	368	10.05%	773	700	10.43%

Detailed Results:

1. The company had a mixed quarter with consolidated revenues rising 13.5% YoY and consolidated PAT falling 6.5% YoY.
2. Standalone numbers were very good with revenue & profit growth of 20% YoY in Q2 and 24% & 39% YoY respectively in H1.
3. RoA for the quarter came in at 5.1% while consolidated RoE came in at 26%.
4. Total AUM grew 18.6% YoY to Rs 26903 Cr while gold AUM grew 30.1% YoY, highlighting excellent growth in standalone business.
5. The company has a borrowing cost of 9.13% in the quarter. The cash and undrawn bank lines of the company were at Rs 5440 Cr as of Q2.
6. The share of new businesses in revenues was at 26.6% in Q2.
7. The book value per share was at Rs 76.2 at the end of Q2.
8. The company also raised fresh borrowing of Rs 2484 Cr through NCDs, and bank loans.
9. In the gold loan business, the Opex to AUM has risen slightly to 5.5% from 5.4% in the last quarter while security costs have gone down 85.1% YoY.
10. Gold AUM per branch rose significantly to Rs 5.6 Cr per branch vs Rs 4.6 Cr per branch a year ago.

11. The standalone business has GNPA and NNPA of 1.1% and 0.7% respectively while maintaining a CAR of 24.8%.
12. The online gold loan's share of total gold AUM was stable 61% in Q2.
13. In Asirvad MFI, AUM was up 5% YoY & down 1% QoQ while RoE has crashed for the subsidiary to -0.9% in Q2.
14. The GNPAs for Asirvad has risen to 2.53% in Q2 vs 2.1% in Q1. The NNPA is still due to the company's good provisioning. Asirvad maintained a CAR of 25.7%. The cost of funds for Asirvad was at 11% in Q2.
15. Collections are back to 90% with only 9% doing no repayment in Oct.

Investor Conference Call Highlights

1. Commercial Vehicle AUM fell 20% YoY.
2. Gold loan AUM constitutes 73% of consolidated AUM.
3. The gold loans' average ticket size and the average duration were INR 46,499 and 47 days.
4. The weighted average LTV stands at INR 2,869 per gram or 61% of the current gold price.
5. Collection for Asirvad in WB was at 75%. The reason for this lower collection is the uneven state lockdowns in WB which have hampered business activities.
6. Collections in Karnataka have seen a temporary blip and should come back to normal.
7. In Asirvad, the loan breakup is term loans of close to 60%, debentures of 12%, and securitization of 25%.
8. The number of customers in gold loans is at 26 lacs.
9. The yields in the gold loan business have not been affected since the loans are small in size of up to rs 50,000 and of 2 months duration and thus the demand for the instant loan stays stable.
10. The management expects to see at least 10% QoQ growth in Q3 & Q4 for gold loan AUM.
11. The company has added headcount in Asirvad for collection to reduce pressure on the existing personnel and this has resulted in higher employee costs in Q2.
12. The company will not be requiring any additional capital for Asirvad currently.
13. Collection in commercial vehicles has been steadily rising from 59% in July to 81% in Oct.
14. Vehicle Finance provision stands at INR 78 crore.
15. The management shall continue to keep a conservative approach and keep higher provisions than required by regulation.
16. The management has stated that the gap in the collection as compared to pre-covid figures is not due to delinquency but due to delay in payment schedule and lags in collections.

17. The management expects collections to come back to pre-covid levels in Q4.
18. The stagnation in collections from Sep to Oct is mainly on account of the festival period and temporary lockdown coming up in the country.
19. The tonnage has gone down as people can now take bigger loans for smaller amounts of gold due to high gold prices. Once gold prices come down, the situation will reverse.
20. Gold loan growth has been primarily pushed by the Online Gold Loan facility during the pandemic.
21. In Q2, gold loan disbursement was at INR 93,368 crore vs INR 68,390 crore in Q1 & INR 50,250 crore in Q2FY20.
22. Only 5% of loan customers are new and the rest are repeat customers.

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 leading gold loan providers by growing its core business consistently. The company's current quarter performance has been decent with 18% YoY overall AUM growth despite QoQ decline in Asirvad AUM. The company has also seen good traction in the online gold loan which has been the primary driver of the standalone business and now accounts for 61% 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 collections have slowly improved to 90% in Oct. It remains to be seen how the company's collections will be affected in the near future 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 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.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1119	1632	-31.43%	856	30.72%	1975	2572	-23.21%
PBT	121	646	-81.27%	27	348.15%	148	546	-72.89%
PAT	103	633	-83.73%	23	347.83%	126	592	-78.72%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3339	3316	0.69%	3003	11.19%	6342	6568	-3.44%
PBT	832	866	-3.93%	657	26.64%	1489	1610	-7.52%
PAT	628	551	13.97%	496	26.61%	1124	1000	12.40%

Detailed Results

1. The company had a good quarter which saw a bounce back from Q1 lows. Consolidated Revenues for Q2 were flat YoY and reported a rise in PAT of 14% YoY.
2. The company raised Long-Term Borrowings of Rs 11,500 Cr. during H1.
3. Net debt to equity has fallen below 1.
4. The overall loan book in the Financial Services segment was at Rs 51522 Cr vs Rs 53055 Cr last year.
5. Sales of developer clients are now at 100% of the pre-covid level.
6. GNPA at 2.5% with provisioning at 5.9% of the total loan book. NNPA was at 1.6%.
7. CAR was at 34% in Q2 vs 27% last year.
8. Net debt to equity for this business was improved to 2.1 times from 2.8 times in last year.
9. The revenue drop in Financial Services was at 5% YoY. This division accounted for 56% of total revenues.

10. The company's multi-product retail lending platform is to be launched in Nov '20 and will largely be doing secured lending in FY21. It will start by operating in 4 product categories and 7 variants (Affordable, Mass Affluent Housing, Secured Business loans & LAP)
11. The average yield on loans was at 14.8% while the average cost of borrowings was at 10.8%. NIM was at 6.3% while the cost to income was at 17.4%. ROA and ROE were at 3.8% and 12% respectively.
12. The company completed the deal with Carlyle Group in Oct '20.
13. Pharma revenues grew 9% YoY. This division accounted for 44% of total revenues.
14. The breakup of pharma revenues was:
    1. Pharma CDMO: Rs 866 Cr (Up 20% YoY)
    2. Complex Generics: Rs 438 Cr (Down 8% YoY)
    3. India Consumer Healthcare: Rs 140 Cr (Up 25% YoY)
15. EBITDA margin in the Pharma division was at 23%.
16. The company passed 4 successful regulatory inspections during Q2FY21.
17. Launched 15 products and 38 SKUs in H1 in the Consumer Healthcare division.
18. Alternative AUM as of Sep '20 was at Rs 11,230 bn.

Investor Conference Call Highlights

1. The company raised long-term debt of Rs 24,800 Cr in H1.
2. The company aims to live with its retail lending platform in Diwali with 4 product categories in 26 towns.
3. 93% of pharma revenues come from global clients. The company is always on the lookout for acquisitions that may add strategic value and fit for the company in both the pharma and financial divisions.
4. The debt in the pharma division after the Carlyle deal is at Rs 2200-2500 Cr.
5. The average yield from the retail finance segment is expected to be lower than the current yield of the financial division and is expected to be at 10-12%. The company has decided to stay out of unsecured lending as long as COVID uncertainties still remain.
6. The company had built up cash covers on the overly cautious assumption that there will be zero sales & collections in H1 and Q3 will have 20-30% while Q4 will have 40-50% collections. But in reality, the bounce-back has been much better than expected with sales back at 100% and collections at 82%.
7. The company still needs 1 quarter to see whether this bounce back is sustainable or it is just pent up demand that is temporary.

8. Prices have not really come down in RE space and collections are lagging sales as builders are giving buyers more time in the payment schedule.
9. The average cost of borrowing for the company is expected to continue to go down slowly. The management is hopeful that with the company's strong balance sheet and the mix changing in favor of retail, it will get the rating to upgrade.
10. The company has indeed seen the incremental cost of borrowing come down and it was at 8.5-9.5% in the last 6 months.
11. The long term funding of Rs 12,000 Cr raised in H1 is in the range of 3-7 years. The company has also done rollovers of Rs 3000-4000 Cr in the same period.
12. There isn't any particular player that the company considers its direct competitor in all spaces. It sees competition from AU or Aavas and other small finance lenders in the affordable housing business and the small business lending spaces. While in the fintech space, it sees Bajaj Finance as competition.
13. The company doesn't want to compete for head to head with these players and is instead focusing on finding pockets in terms of products, customer segments, and properties where banks are not focused and where it can compete a little bit better on given its cost of the fund structure.
14. The company is indeed on the lookout for inorganic opportunities in the fintech space but it is unlikely to acquire in fintech purely for specific core platform capabilities of the targets.
15. The management has stated that from a liquidity standpoint, the hospitality and hotel sector might stay under some pressure for the foreseeable future and the company may have to consider restructuring in some cases in these segments. The company will take a call on it in January.
16. Around 95-97% of outstanding loans in the standalone balance sheet have been transferred to HFC or to NBFC. The company only has around Rs 1500-1600 Cr of loans left in the standalone balance sheet.
17. The management has clarified that it had not taken the decision to exit Shriram to increase liquidity or strengthen its balance sheet. They had taken the decision as they are moving into retail lending which may have direct competition with Shriram. The company is in no urgency to sell this stake and it will let it go only for the right price.
18. Stage 3 loans for the company were at Rs 1200 Cr while Stage 2 was at Rs 1200-1300 Cr.
19. The company is looking to wait till Q4 at least before considering the reversal of COVID provisions.
20. The company has reduced its renewable sector exposure from Rs 3900 Cr to Rs 2800 Cr from June to Sep. This exposure is expected to come even further down as 2 large exposures of ACME and ReNew have gotten refinanced at par with Brookfield in Oct. The management expects that by March '21, all renewable exposure except Mytrah will be refinanced.
21. The refinance deal with Brookfield has given the company additional liquidity of Rs 1500 Cr.
22. No fresh lending was done in the wholesale business in Q2.

Analyst's Views

Piramal Enterprises is facing the heat of the challenging economic environment and downturn in the real estate sector. The company has seen a good bounce back in the financial division and good growth in the pharma division. The company has managed to complete the Carlyle deal and has brought the net debt to equity below 1 which is exceptional for a predominantly NBFC company. The company is doing well to launch the retail lending platform in Diwali and target underserved geographical and population segments that are not addressed by most of the competition. 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 for, 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	909	1271	-28.48%	753	20.72%	1662	2626	-36.71%
PBT	67	163	-58.90%	33	103.03%	100	373	-73.19%
PAT	49	160	-69.38%	24	104.17%	73	298	-75.50%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1169	1369	-14.61%	886	31.94%	2055	2810	-26.87%
PBT	80	163	-50.92%	7	1042.86%	87	380	-77.11%
PAT	57	160	-64.38%	3	1800.00%	60	304	-80.26%

Detailed Results:

1. The quarter saw a revenue decline of 14.6% YoY in consolidated terms.
2. Consolidated net profit declined by 64% YoY for the quarter.
3. The current order book stands at Rs 10705 Cr. Manufacturing operations have exceeded pre-covid levels.
4. Exports accounted for 47% of revenues in Q2FY21.
5. The company expects continued growth in Q3 & Q4 according to Vision 2023.
6. The client base revenue breakup in H1 is as follows:
    1. Telcos: 66%
    2. Enterprises: 11%
    3. Citizen Networks: 20%
    4. Cloud Players: 3%
7. The completion of various data network projects for the company are as follows:

   1. Network Modernisation for Indian Navy: 83%
   2. MAHANET: 88% (A) 1% (B)
   3. T-Fibre for Telangana: 14% (A) 8% (B)
   4. FTTH rollout for a large Indian Telco: 2%
   5. Modern Optical fibre rollout for large Indian telco: 5%
8. The order book spread across customer segments is as follows:
   1. Telcos: 43.9%
   2. Citizen networks: 36.9%
   3. Enterprises: 18.8%
   4. Cloud: 0.4%
9. The company has completed the open market buyback program of Rs 100 Cr.

Investor Conference Call Highlights:

1. The company has made good additions to its advisory board and management teams both in India and abroad which it expects to help deliver Vision 2023 and provide impetus to its global growth approach.
2. Around Rs. 2500 Cr of the order book is expected to be executed in H2FY21 and the rest will be done in FY22 and beyond.
3. The company has won a large order for Opticonn solution from a leading telecom player in Europe.
4. It has also won a fiber rollout order for 10 circles for Airtel. It has also won a large digital transformation mandate from a leading telecom operator in Africa.
5. Lastly, the company has won some Wi-Fi-6 hardware and service management platforms from a disruptive Japanese digital network creator.
6. STL's capacity utilizations have exceeded the pre-COVID levels and the company expects to see further improvements in Q3 & Q4.
7. Overall debt has increased slightly to Rs 2158 Cr.
8. The management agrees that Bharatnet is indeed created to be shared by all telcos and that network creation in the same geographies is done more for capacity reasons rather than ownership reasons. This is true everywhere in the world.
9. O&M part accounts for around 30% of the total project Capex and is executed over 7-10 years.
10. The fiber rollout order for Airtel is for Rs 700 Cr and the Mahanet order is of Rs 2000 Cr all-inclusive. The Telangana order is of Rs 1700-1800 Cr.
11. Most of the global orders won by the company (other than the Africa order) are for data centres from the acquisition done last year.
12. Fiber capacity utilization is at 60% of 50 million capacity while cable utilization is at 90%+ of 18 million capacity. Margin wise, the management expects product margins to inch towards 20%+ as utilization rises.
13. Revenue mix was at around 60-40 with the majority skewed towards the product side.
14. The company is expected to reduce its dependence on fiber prices as it is looking to make more sales on cables going forward which have almost 3 times realization as compared to bare fiber.
15. The main driver for the virtualized access products business is the propagation of 5G, Wi-Fi-6, and cloud computing ecosystem. The company expects real products to start shipping from Q2FY22 onwards. The company will be essentially looking at getting off-the-shelf hardware, embedding it with software, and staying away from manufacturing as much as possible.
16. The management expects pricing to be stable as demand in non-China territories firms up going forward.

17. The company is still on track for its pending capex of Rs 550 Cr which is expected to do by 9MFY22 at the latest.
18. The management expects the move towards Open RAN to gain momentum over the next 3-5 years with the announcement of Jio and Airtel to move towards it and Qualcomm to make chips for Open RAN.
19. The increase in cable capacity from the present 18 million to 30 million is expected to take place in modular phases over the next 7-odd months. The newly added capacity of 12 million can provide additional revenue of $150-160 million at full capacity (considering the realization of $15-16 for cable).
20. The capex mentioned above of Rs 550 Cr is for both the fiber and cable expansion. Total capacity after the expansion is expected to be at 50 million of fiber and 30 million cables which the management feel is enough to fulfill the company's goal of reaching yearly revenues of Rs 10,000 Cr.

Analyst's View:

Sterlite Technologies saw a big revenue and profit decline in the current quarter. The company has had a down quarter as the business recovers from COVID-19. They are seeing a good recovery in the product business with utilization levels rising above pre-covid levels. The company is seeing a decent deal wins abroad mainly on the data center business and is also expecting to see sales for virtualized access products start from next year onwards. There is a massive opportunity in the cards for the company from the development of the 5G ecosystem announced by Reliance Jio based on Open RAN technology which is also supported by Airtel. It remains to be seen how the uncertainty around COVID-19 unravels and how fast will move towards 5G take place in the company's principal geographies. 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)								
	Sep-20	Sep-19	YoY %	Jun-20	QoQ %	9MSep20	9MSep19	YoY
Sales	268	290	-7.59%	230	16.52%	742	738	0.54%
PBT	67	100	-33.00%	43	55.81%	168	171	-1.75%
PAT	50	71	-29.58%	32	56.25%	127	120	5.83%
Consolidated Financials (In Crs)								
	Sep-20	Sep-19	YoY %	Jun-20	QoQ %	9MSep20	9MSep19	YoY
Sales	522	480	8.75%	484	7.85%	1464	1330	10.08%
PBT	114	148	-22.97%	93	22.58%	324	359	-9.75%
PAT	90	105	-14.29%	66	36.36%	245	249	-1.61%

Detailed Results:

1. The current quarter was encouraging for the company with consolidated revenues rising by 8.75% but profits fell 14% YoY.
2. Excluding Greenwich Associates, revenues would have risen 0.3% YoY while profits would have risen 5.1% YoY.
3. In the 9MSep20, the revenues have risen 10% YoY while profits have fallen 1.6% YoY. Excluding Greenwich Associates, revenues would have risen 1% YoY while profits would have risen 18.5% YoY in the 9M period.
4. The board of directors has declared a third interim dividend of Rs 7 per share.
5. The rating business declined 4% YoY due to a sharp slowdown across investment and consumption-oriented sectors. Global Analytical Center (GAC) saw an increase in support coverage for S&P Global Ratings which included support for key initiatives such as environmental, social, and governance evaluations, and inferencing impact of Covid-19.
6. The research business grew 22.1% in revenues due to robust growth in the Global Research & Analytics business and contribution from Greenwich. The focus in this space was on client renewals and new mandates. Excluding Greenwich, this segment would have grown only 3.5% YoY.
7. Overall performance in the advisory business was affected by an across-the-board reduction in infrastructure spends. Revenues in this division fell 6.4% YoY.

8. The company also saw consolidated forex losses of Rs 5.91 Cr in the Sep 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. Although the profits for the company are subdued due to the addition of Greenwich without which PAT growth would have been 18% YoY, this drop in profits looks to be temporary only. The advisory business suffered a lot due to reduced spending by clients on projects. It remains to be seen how long the pandemic lasts and 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.

TECHNOLOGY

Intellect Design Arena

Financial Results & Highlights

Brief Introduction:

Intellect Design Arena is a global leader in Financial Technology for Banking, Insurance and other Financial Services. It is positioned at the forefront of the digital transformation that global banks are looking for in a connected world. Intellect's robust iDigital platform enables products across four distinct lines of businesses: Global Consumer Banking (iGCB), Risk, Treasury & Markets (iRTM), Global Transaction Banking (iGTB), Central Banking and Insurance (Intellect SEEC). Deep banking domain expertise, coupled with investments of Rs 800 Crores over the last ten years in developing the world's first full spectrum of banking products has made Intellect the company with one of the most advanced technologies for financial institutions with global businesses.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	242	189	28.04%	221	9.50%	463	373	24.13%
PBT	51	-13	492.31%	42	21.43%	93	-19	589.47%
PAT	46	-13	453.85%	39	17.95%	85	-14	707.14%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	374	338	10.65%	354	5.65%	728	691	5.35%
PBT	67	-15	546.67%	53	26.42%	120	-14	957.14%
PAT	59	-16	468.75%	43	37.21%	102	-13	884.62%

Detailed Results:

1. The company had a very good quarter with revenues rising 11% YoY and 5% QoQ while profits rising 37% QoQ.
2. License revenues rose 131% YoY. AMC revenues grew 19% YoY and Cloud/SaaS revenue grew 25% YoY. License linked revenue was at 56% of total revenue vs 46% last year.
3. The gross margin was at 56% against 45% last year.
4. EBITDA margins expanded 400 bps QoQ to 24%.
5. Order backlog as of 30th Sep 2020 was at Rs 1194 Cr.
6. The Net Days of Sales Outstanding (DSO) is 127 days in Q2 FY21 as against 126 days in Q2 FY20.
7. Investment in Product Development (Capitalised)is INR 28.4 Cr, the same as in Q2 FY20.
8. The company had 6 deal wins in Q1 with 4 of them being large deal wins.
9. Repeat revenue from existing customers stood at 93%.
10. The current funnel of Intellect is around Rs 4018.1 Cr ($ 540 Mn) out of which Rs 3028.5 Cr ($ 407 mn) is accounted for by 117 Opportunities.

11. The average deal size in Q2 FY21 stands at Rs 14.9 Cr ($ 2 Mn) against Rs 16.8 Cr ($ 2.4 mn) in Q2 FY20.
12. The average deal size of destiny deals stands at Rs 44.6 Cr ($ 6 Mn) in Q2 FY21. Destiny deals contribute to 53% of the total Opportunity funnel in Q2 FY21.
13. Revenue breakup is 57% Advanced Markets, 28% Rest of the World & 15% India.
14. Digital Transaction Banking (DTB) has won its 57th customer during Q2FY21 for the largest bank in Southeast Asia.
15. 19 projects went live in Q2.
16. Closed a multi-million-dollar upgrade deal with an Apex National Financial Institution in India for their core banking and lending transformation.

Investor Conference Call Highlights:

1. The company now boasts of 900 APIs in 12 product lines.
2. The company is able to do POCs or proof-of-concept of its solutions in 2 to 6 weeks' time.
3. The company's focus is to increase our license revenue as it is recurring and provides good certain revenues.
4. The company's data superiority is over 94% in the USA which is the best in class.
5. The total collection for H1 was at Rs 771 Cr.
6. The company closed another large deal on liquidity in the USA. The company is now cementing its market leadership in this space with 23% of global cross-border cash concentration going through its platforms. This new customer was the 11th in USA and 25th in North America.
7. The company has 5 platforms that are set to go live in H2.
8. The company will be launching Intellect Payments Hub '21, which is completely cloud-native in the next quarter.
9. In the company's central banking proposition, Intellect is in last-stage talks with 2 large central banks for digital transformation. The company is chasing a destiny deal in this vertical in the EU which is expected to be closed in H2.
10. The management has stated that the increased deal run rate is mainly due to the superiority of the company's architecture over competitors like Finastra and Temenos.
11. The management is expecting this momentum in signing deals to continue as deal signing has been impacted in H1 from COVID and these deals will come back to the table now.
12. According to management, 30% EBITDA will come with a 60% gross margin.
13. The company is targeting to reach 30% margins in the next 4 quarters.
14. The management has stated that advanced market share in revenues will be close to 60% going forward and can rise to 62-63% if these markets grow more than expected.
15. The Intellect SEEC platform is a partner of Snowflake and uses it for faster processing of the data layer. The management states that the entire platform is comparable to Palantir which is an AI platform-based company in the USA.
16. Palantir does data consolidation for a variety of agencies including the US govt. Intellect SEEC does the same thing but for financial services only.
17. There isn't any non-compete clause between Intellect & Polaris.
18. The management hopes to achieve 20% sales growth & 40% EBITDA growth for the company. It also hopes to reach $400 million in sales in the next 5 years.
19. Demand scenario in many spaces has come back to pre-covid levels mainly due to digital acceleration.

20. The company is net debt negative with cash of Rs 94 Cr and a low-cost term loan of Rs 60 Cr.
21. The company has 3 clients in the APAC region, which are about to go live in the next 2 quarters.

Analyst's View:

Intellect Design Arena is a fast-rising disruptor in the world fintech space. The company's products are well received all over the world which is evidenced in the diverse set of geographies and financial institutions that they cater to. The company has done well to garner good deal-wins in Q2 especially its 11th deal in the USA in the Liquidity space where it is fast establishing its dominance. The current quarter was good for the company with the EBITDA margin appreciation of 400 bps to 24%. The company is also seeing good traction and demand for its Intellect SEEC platform and is set to launch 5 new platforms in H2. It has also done well in the last year to migrate all of its APIs and make them all cloud compliant. It remains to be seen whether the company will be able to reach its revenue target and maintain its growth momentum as the management has proposed or whether there will be any other headwinds that will put pressure on the company. Nonetheless, given the acceptance of the company's products in all kinds of financial institutions worldwide and its high customer retention rate and accelerated implementation time for its projects, Intellect Design Arena remains a stock to watch out for in the financial software industry.

L&T Infotech

Financial Results & Highlights

Brief Introduction:

Larsen & Toubro Infotech Limited, a technology consulting and digital solutions company, provides information technology services and solutions in India, North America, Europe, the Asia Pacific, and internationally. The company operates through Banking, Financial Services & Insurance; Manufacturing; Energy & Utilities; High–Tech, Media & Entertainment; and CPG, Retail, Pharma & Others segments. It offers application development, maintenance and outsourcing, enterprise solution, infrastructure management, testing, digital solution, and platform-based solution services. It is a subsidiary of Larsen & Toubro Limited.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2840	2546	11.55%	2830	0.35%	5670	5008	13.22%
PBT	575	495	16.16%	530	8.49%	1106	992	11.49%
PAT	430	388	10.82%	397	8.31%	827	770	7.40%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	3035	2664	13.93%	3015	0.66%	6050	5250	15.24%
PBT	613	473	29.60%	559	9.66%	1172	952	23.11%
PAT	457	360	26.94%	416	9.86%	873	716	21.93%

Detailed Results:

1. The company had a decent quarter with 14% YoY growth in consolidated revenues and 27% YoY growth in consolidated profits.
2. The constant Currency Revenue increase was at 2.3% QoQ and 10.5% YoY.
3. USD revenues were at $404.5 million which is a growth of 11.2% YoY.
4. Digital revenues were at 43% of revenues at $ 173 million in Q2.
5. EBITDA margin expanded 480 bps YoY to 22.9% in Q2.
6. Revenue breakup by vertical is:
    1. BFS: 9% (Up 21.2% YoY)
    2. Insurance: 16% (Down 5.1% YoY)
    3. Manufacturing: 2% (Up 9.2% YoY)
    4. Energy & Utilities: 6% (Down 3.6% YoY)
    5. CPG, Retail & Pharma: 11% (Up 4.7% YoY)
    6. Hi-tech, Media & Entertainment: 6% (Up 9.6% YoY)
    7. Others: 7% (Up 87.9% YoY)
7. Revenue breakup by Service Offerings is:
    1. ADM and Testing: 36% (Up 10% YoY)

   2. Enterprise Solutions: 8% (Up 4.2% YoY)
   3. Infrastructure Management Services: 4% (Up 43.3% YoY)
   4. Analytics, AI & Cognitive: 8% (Up 3.6% YoY)
   5. Enterprise Integration & Mobility: 3% (Up 3% YoY)
8. Geographical breakup is North America @ 68.7%, EU @ 16.1%, RoW @ 8.2% & India @ 6.9%.
9. Top 5 clients account for 30% revenue, Top 10 account for 42.9% revenue & Top 20 account for 57.8% revenue.
10. The company has added 26 new clients in Q2.
11. Effort Offshoring is at 80.6% while offshore revenues are at 53.5%.
12. Utilization including trainees is at 80.5% and excluding is at 82%.
13. The Board declared an interim dividend of INR 15 per share on 20th Oct 2020.
14. LTI launched Canvas PolarSled, automated cloud migration, and modernization framework to help enterprises accelerate their data journey to Snowflake, the cloud data platform.
15. LTI ranked #1 in the Institutional Investor's 2020 All-Asia Executive Team survey, across all sell-side categories in the Technology/IT Services & Software space. It was the only IT Services Company to be included in the 'Most-Honored' List 2020.
16. LTI is now an 'Elite' (highest) level partner with ServiceNow in the Sales, Services, and Managed Services category.

Investor Conference Call Highlights:

1. The company has identified 2 huge opportunity areas which are cloud business with hyperscalers like AWS, Azure, and GCP & data products business with its market-leading platforms and products, namely Mosaic and Leni.
2. The deal pipeline is up 22% YoY.
3. The company has added a new Global Fortune 500 logo to its list of clients, taking the total Fortune 500 logos to 68.
4. The Global Fortune 500 client that LTI has added belongs to CPG, Retail & Pharma vertical.
5. The company will roll out salary hikes from January 1.
6. LTI's cash flow hedge book stood at USD 1,030 million as of 30 September 2020 versus USD 1,098 million as at 30 June 2020.
7. Net cash flow from operations was at INR 4,465 million, which was at 97.7% conversion of the net income.
8. Cash and liquid investments stood at INR 35,472 million as of 30th Sep 2020.
9. The company has increased offshoring to increase efficiency, speed, & utilization.
10. Most of the deals pitched to customers have 90%, 95% offshore ratios.
11. The company is looking to add more investments in the areas of cloud and data products.
12. The growth in legacy verticals like ADM & enterprise solutions has a lot of new-age services embedded in them.
13. The management feels that there are more opportunities for growth for them at the top account despite the impending management change at the top account as the new management is even more tech-savvy.
14. The company is seeing growth across the board in digital onboarding space from both existing and new customers. Loan management and the credit risk that comes with loan management is expected to lead to new growth opportunities.

15. The management expects revenue momentum to continue mainly due to the rise in the deal pipeline.
16. The management is confident of the growth to be in the leaders' quadrant for the year. for LTI.
17. The trend for increased offshoring is expected to thrive as more and more companies are looking at it as a good way to make cost savings for both tech companies and their clients.
18. The USA is slowly catching momentum and coming back to long term growth levels.
19. US insurance sector has seen an impact by COVID-related insured losses and premium volumes have declined. There are also other threats like significant hurricane and wildfire losses. But despite these roadblocks, the industry is expected to sustain its growth and the company expects this vertical to grow well for it in the near future.
20. The management has stated that there has not been any pricing pressure in its deals so far.
21. The management is confident that the shift to more offshoring is EPS accretive as it leads to better margin and better profitability which was evident from Q2 performance.
22. The management is seeing a comeback in the Energy space and expects a recovery in this vertical to start from Q4 onwards.
23. Growth is resuming in the manufacturing sector in the USA & EU. The management expects growth in this vertical to be driven by the move to new operating models. The next growth opportunity in this sector is expected to come in FY22.
24. The increasing focus on cybersecurity & creating new operating models to drive cost savings for all kinds of customers are expected to create opportunities for tech companies going forward according to the management.
25. Similarly, digital transformation and automation are also expected to create opportunities as going digital is increasingly becoming necessary for all industries going forward.
26. The company is also looking to create a separate unit to focus on cloud and data products.
27. The company is looking to not only utilize traditional partners like SAP & Oracle but also emerging tech like Snowflake to create joint sales traction, including go-to-market, enablement, etc.

Analyst's View:

L&T Infotech is a major in the digital solutions space in India. The company has done well to maintain its presence in many end industries like BFS, Insurance, Manufacturing, etc, and focus on cloud and data products to drive growth in the near future. It has had a good Q2 with deal pipeline rising 22% YoY with much key deal wins. The management has also been perceptive in identifying offshoring and creating new operating and sales models as a good source for improving performance and bring in cost savings. It remains to be seen how the company will be able to sustain its growth momentum and the increased competition in the tech space. Nonetheless, given the company's ever-increasing roster of marquee clients and its focus on driving growth from cloud & data products, L&T Infotech is a pivotal technology stock to watch out for.

Persistent Systems

Financial Results & Highlights

Brief Introduction:

Persistent Systems Limited provides computer programming, consultancy, and related services. It operates through three segments: Technology Services, Alliance, and Accelerite (Products). The company engages in the provision of software products, services, and technology innovation in telecom and product lifecycle management domains, and digital practice; software development, professional, and marketing services; and telecommunication API gateway for defining, exposing, controlling, and monetizing telecom services to partners and application developers, as well as an Internet of Things service creation platform that allows enterprises to add a service layer to the basic APIs exposed to by connected devices, and to expose and monetize APIs. The company serves the banking, financial services, insurance, healthcare and life sciences, industrial, and software and technology industries.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	617	558	10.57%	586	5.29%	1202	1084	10.89%
PBT	159	134	18.66%	158	0.63%	317	246	28.86%
PAT	118	107	10.28%	121	-2.48%	239	190	25.79%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1024	923	10.94%	1012	1.19%	2037	1785	14.12%
PBT	138	116	18.97%	122	13.11%	260	225	15.56%
PAT	102	86	18.60%	90	13.33%	192	169	13.61%

Detailed Results:

1. The company had a decent quarter with consolidated revenue growth of 11% YoY and PAT growth of 19% YoY.
2. H1 performance was similar with revenue growth of 14% YoY and 13.6% YoY PAT growth.
3. USD revenues were at $136.09 million which was up 8.4% YoY.
4. EBITDA was up 36.3% YoY.
5. Industry revenue mix was at:
    1. BFSI: 9%
    2. HCLS: 3%
    3. Tech & Emerging: 8%
6. Client concentration was: Top 1 @ 19.4%, Top 2-5 @ 22.2% & Top 6-10 @ 9%.
7. Revenue breakup in terms of business offerings was at 83.8% for Services & 16.2% for IP led.
8. Geographical revenue breakup was:
    1. North America: 9%

   2. EU: 6%
   3. India: 1%
   4. RoW: 4%
9. Persistent Systems was cited as a Strong Performer in the Forrester Wave: Digital Process Automation Service Providers, Q3 CY2020.
10. Persistent launched Center of Excellence Accelerating Hybrid Cloud Journey with Red Hat OpenShift.
11. Persistent Achieved AWS Service Delivery Designation for AWS Lambda.
12. Persistent Systems was recognized as a Top 15 Service Provider in 2020 ISG Index™ for a second consecutive quarter.
13. The company has cash & investments of Rs 1693 Cr as of 30th Sep 2020.
14. The company has 16 clients of > $5 million engagement and 63 clients of engagement size of $1-5 million.

Investor Conference Call Highlights:

1. The company has appointed Mr. Sandeep Kalra as CEO in Q2.
2. Tech companies and emerging verticals led the growth at 4.7% QoQ, followed by BFSI at 4.2% QoQ and Healthcare & Life Sciences at 1.4% QoQ.
3. The company continues to see strong traction in its Product Engineering Services as well as cloud and infrastructure service lines.
4. Persistent won a number of large deals in the quarter in TSU across its existing customers and net new customers.
5. It won large multiyear, multimillion-dollar deals to set up a global technology center for a leading cloud-based voice, video messaging platform & a large tax technology company.
6. It also won a multimillion, multi-year deal to provide operational support, including IT service desk and onboarding for end customers and traders for an innovative multi-bank trade finance network in Europe.
7. The company also won a multiyear, multimillion-dollar deal for a large multinational medical technology company for rearchitecting their flagship product from legacy to modern component-based architecture.
8. For one of its existing customers in the scientific instrumentation space, PS won a multiyear, multimillion-dollar contract across new business units to build newer reporting applications.
9. The company has announced the acquisition of CAPIOT to strengthen its data integration capabilities in the MuleSoft, TIBCO, and Red Hat space. This deal is expected to help expand the footprint with its Salesforce customers.
10. The utilization improved to 81.2% as compared to 78.5% last quarter. Attrition was lower at 10.6% on the trailing 12-month basis as compared to 12.7% in the previous quarter. The company has planned to do salary increments in November for all employees.
11. The gross margin came in at 34.7% as against 33% in the previous quarter. Sales and marketing expenses came in at 8.9% of revenue as against 8.7% in the previous quarter.
12. Admin and other expenses came in at 8.1% of revenue. Forex loss came in at INR 51 million as against INR 58 million in the previous quarter.
13. The operational CapEx for the quarter was INR 263 million, part of which was to enable all employees to have the equipment to continue to work from home.
14. The forward contracts outstanding as at 30th September were $129 million with an average rate of INR 76.30 per $1.

15. The management maintains that there are a lot of service offerings that can be taken from the tech services business to the Alliance and vice versa.
16. The company will be looking to significantly move the resources from on-site to offshore, and that will provide cost savings and help mitigate the impact of the salary increment along with the reduction in discounts.
17. It is indeed part of the company's strategy to keep trying to book larger deals, long-term deals with both existing customers or new customers and bring up the quality of revenue and the quality of customers in each packet.
18. The management maintains that it is seeing green shoots of opportunities from alliances.
19. In terms of acquisition strategy, the company is looking at 3 things basically. They are to increase the value proposition, industry vertical, and geographic diversification.
20. Margins are expected to rise in FY22 as amortization comes down and provisioning for COVID gets reduced.
21. The company is broadly at 60% offshoring. The management believes that offshoring will rise as more & more customers come to accept it and due to the cost savings involved.
22. The company had 2 large deals in the reseller business in Europe last quarter which was a one-off but gets renewed each year.
23. The company is also looking to expand the services business in both alliance and tech services verticals in the EU.
24. The company is looking to target growth to $1 billion over the next 4 years.
25. The company is looking to bring in its existing services into the Alliance side in the next 2-3 quarters.
26. The management aims to maintain the company's position in the top quartile of the industry growth at least.
27. The Salesforce business had indeed paused in the EU at the start of COVID but it is coming back now.
28. The company will unveil its plans to reach $ 1 billion in the next 4 years in the coming quarters.
29. The company is maintaining big cash reserves to be able to do any acquisitions whenever it needs to.
30. The company has initiated a program to reduce its dependence on subcontractors. This dependence should trend down in the medium term.
31. For this quarter and next quarter, PS has a plan to add anywhere between 300 to 400 people on a quarterly basis.

Analyst's View:

Persistent System is a fast-rising player in the digital transformation space. It has seen good growth in recent years and is looking to capitalize on this momentum and aim to reach revenues of $1 billion in the next 4 years. The company had a decent quarter with much large deal wins. It is also looking to increase its offshoring quantum which should yield cost savings in the long term. The company is also looking to introduce many cross-sell opportunities between its tech services and alliance verticals. It remains to be seen whether the company will be able to maintain its current momentum and whether its strategic acquisitions will prove to be as useful as projected. Nonetheless, given its fast rise in recent years and its big presence in North America & its various Alliances, Persistent Systems remains a key technology stock to watch out for.

Ramco Systems

Financial Results & Highlights

Brief Introduction:

Ramco Systems Limited operates as an enterprise software company in India, the Americas, Europe, APAC, the Middle East, and Africa. The company offers Ramco AviationSoftware, an enterprise-wide M&E/MRO software to address the needs of airlines, heli operators, MROs, and business aviation segments; Ramco VirtualWorks, a software meta model that captures data required to generate and deliver solutions in various technology platforms; and Ramco DecisionWorks for analytics/reporting. It also provides Ramco ERP on Cloud, a suite of products that covers enterprise functions, such as manufacturing; financial, supply chain, human capital, customer relationship, enterprise asset, and project management; process control; analytics; advanced planning and optimization; and connectors. In addition, the company offers Ramco Human Capital Management, a HR and talent management, and payroll software; and Ramco Logistics Software, a cloud based software that covers the needs of third-party logistics, freight forwarders, and parcel/courier service providers.

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	85	85	0.00%	78	8.97%	163	171	-4.68%
PBT	16	20	-20.00%	16	0.00%	32	38	-15.79%
PAT	8	15	-46.67%	9	-11.11%	17	30	-43.33%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	165	151	9.27%	149	10.74%	314	293	7.17%
PBT	29	14	107.14%	28	3.57%	57	20	185.00%
PAT	17	7	142.86%	14	21.43%	31	10	210.00%

Detailed Results:

1. Consolidated revenues grew 9% YoY in Q2. Consolidated profits saw a phenomenal rise of 1.42 times YoY.
2. Similarly, H1 revenues showed growth of only 7% YoY but profit growth of 2.1 times YoY.
3. The company had a consolidated forex loss of 1.94 Cr in Q2.
4. The company retired borrowings of Rs 25.2 Cr. Debt as of 30th Sep 2020 was at Rs 49.75 Cr.
5. Cash & cash equivalents for the company was at Rs 16.4 Cr as of 30th Sep 2020.
6. Q2 witnessed the highest ever EBITDA figures.

Investor Conference Call Highlights

1. The company signed 5 million dollars plus deals in Q2.
2. Quarterly order bookings stood at $26.53 million, which was up 24% QoQ.
3. EBITDA margin in Q2 was at 31%.
4. The company entered the USA in Q2. It also made its entry into Europe with Cyprus and Turkey being launched this quarter.
5. The company also entered Macau and is looking to add 8 new countries in Europe and 6 new countries in Africa in the next 12 months.
6. The global market potential for RAMCO is currently at $20 billion and growing steadily.
7. The management states that the company's USP is its consolidated global platform to process payroll. This helps in a) one single vendor giving payroll compliances for these countries b) uniformity in quality and the reporting and c) getting down to the last level of transaction in the payroll world.
8. 37% of revenues come from recurring customers.
9. The company added 5 large multinationals in Q2 which are One of the global Agri major company with more than 10,000 employees, one of the top-10 global dairy company with 5,000 employees, one of the top five logistics major with 15 countries, one of the large Fortune 500 & healthcare major and one of the large leading beverage and food majors in the Australia region.
10. The company is getting global acceptance with global IT majors like Oracle & Workday partnering up with Ramco.
11. The company has an unexecuted order book of about $164 million at the moment.
12. 65% of the order wins were more than US$1 million in Q2.
13. The company doesn't expect travel expenses to come back to the pre-covid level as it is more efficient for the company and client to have virtual meetings.
14. The DSO for the company remains high as the payment cycle for small customers is large. The management states that this will come down once larger clients get signed on.
15. The company has signed on 2 of the world's largest aircraft OEMs as customers. Due to the increased compliance in this, the company is seeing inroads into the US defense sector.
16. The company has multiple pricing models for the HRP segment.
17. The main crux behind the payroll business is how fast can you get things running and how do you charge the setup fees. Typically, the company should be able to go live in 3 months.
18. The company is indeed seeing a shift towards the PEPM (per employee per month) model from the traditional license model.
19. The partnership with Oracle & Workday involves them providing prospects to the company and Ramco paying these partners a referral fee. Ramco also has connectors built to their applications.

20. In the PEPM model, costs are automatically accounted for with revenue while development costs are amortized over 10 years. There are no deferred costs involved.
21. The company maintains a wage bill at below 50% of revenues and prefers to hire local nationals in low-cost countries or for strategic clients like US defense sector customers.
22. Q1 is the quietest quarter for Ramco typically. The rest of the year is evenly distributed.
23. The company is bidding for contracts worth $500 million currently and is in an advanced stage in about $200-211 million. The unexecuted order book of $165 million will be executed in the next 2-4 years.
24. 60% of deals chased by Ramco are for HR & payroll.
25. The company booked a deal from a group of four ports and two logistics companies in Malaysia for $5 million for enterprise asset management (EAM). This deal is completely by Ramco end-to-end and also includes logistics & HR components.
26. The increase in SG&A expenses in Q2 was mainly on account of special incentives offered by Ramco to stave off a business contraction in H1.
27. These incentives have gone away from 1st
28. The HRP business unit is deploying in AI/ML in payroll processing and rolling out Anomaly engine. It is also implementing a Self-explaining payslip and the reasoning engine, which automatically gives a reason why errors normally occur.

Analyst's View:

Ramco is a fast-growing enterprise software player disrupting the market with its multi-tenanted cloud and mobile-based enterprise software in the area of HCM and Global Payroll, ERP, and M&E MRO for Aviation. Ramco Systems focuses on Innovation and Culture to differentiate itself in the marketplace. On the Innovation front, Ramco has been focusing on moving towards Cognitive and Robotic ERP. Some of the recent positive developments such as sustained cost control, increased acceptance of remote implementation/sales, and partnership with Oracle & Workday for its Payroll business has led to better than expected numbers for the company. It remains to be seen whether this earning momentum can carry on in the quarters to come. The price has shot up a lot in a short period of time making the current valuation look very expensive at the moment. Nevertheless, Ramco Systems is one stock to watch out for in the IT product space.

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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	435	398	9.30%	414	5.07%	849	772	9.97%
PBT	110	70	57.14%	94	17.02%	204	141	44.68%
PAT	79	50	58.00%	69	14.49%	148	99	49.49%

Detailed Results:

1. The company saw revenues rise 9.3% YoY in Q2. Revenue from operations rose 11.5% YoY
2. The PAT for the company rose 58% YoY in Q2.
3. H1 performance was very good with 10% YoY revenue growth and Pat growth of 49.5% YoY.
4. The company gained Rs 4.55 Cr from foreign exchange gains.
5. EPD division grew 15.1% YoY and 7.1% QoQ.
6. Media & Communications vertical grew 6.7% QoQ & 19.2% YoY.
7. Healthcare division grew 14.1% QoQ & 50% YoY.
8. IDV grew 15.1% QoQ with key international design project wins.
9. Revenue distribution by geography is as follows:
    - EU: 39.8%
    - USA: 35%
    - India: 12.5%
    - Rest of the World: 12.6%
10. The top 10 customers now account for 50.7% of the total sales.

Investor Conference Call highlights:

1. The company saw constant currency growth of 6.9% QoQ and 4.4% YoY.
2. The company signed a multiyear deal with a European Tier 1 supplier for our vehicle electronics and software. It also added a new automotive OEM as a customer.

3. The management stresses that it will continue to focus on maintaining margins and it will indeed be giving out salary hikes this year due to the stellar performance. The hike is expected to be around 6-8%.
4. Offshore % has increased to 65.3% in Q2 from 57.4% in Q1.
5. The other expenses have been down mainly due to the fact that around 95% of the workforce is working from home for the company.
6. The management believes that the company is back at pre-covid momentum in terms of both pipeline and emerging opportunities.
7. The partnership announced with Schaeffler is like an offshore development center for a customer. In the case of other announced partnerships like INVIDI or Google, the company is providing a joint go-to-market with somebody else to provide larger or more complete solutions to its customers. For example, in OTT, the solution in partnership with Google and Widevine is used for content protection. With INVIDI, the company is offering its OTT customers a platform for addressable ads.
8. The management is optimistic about the business with the company's top client and is confident that it will continue on a positive outlook.
9. The company continues to maintain its offices and will take a permanent decision once the pandemic goes out.
10. The management has stated that it has initiatives going on in both new product development and possible acquisitions for nonlinear growth options for the company.
11. IPR based revenue remains low at less than 5%. The company is looking to move more towards a solutions model where it can offer both products and services depending on client needs rather than remain firmly in a segregated product vs service model.
12. The company is maintaining cash reserves at Rs 900 Cr which it will be using for possible inorganic growth options if they come up.
13. The management hopes to add on 2-3% in service revenues in the future and for services to continue beyond a 1-year period which will provide a longer tail of revenues.
14. The company currently has 1-2 platforms in its major verticals. It has TE PLAY and FalconEye in media, Autonomai, and AutomaTE in auto sector and is looking to develop more platforms in these spaces.
15. Although the company has worked in the space side in the Mangalyaan mission and a few others, it is not expecting big growth in this segment as most of the projects here are govt driven which are hard to deliver.
16. The company does see the application of Autonomai in auto parking but the management acknowledges that many of the emerging markets can never achieve full autonomy because the roads and infrastructure don't suit it. So rather than full autonomy, there is a good opportunity for individual features like auto parking valet systems, traffic jam assist, etc. The company will look to remaster Autonomai to suit features that it thinks have more applications than full autonomy at the moment.

17. The company is seeing good traction for the network operations automation solution where the client can automate some of the monitoring and control of the network to make sure that subscribers don't have any disruption to the services. The company is also looking to adapt this to other industries under the concept of remote monitoring and remote management which can apply to any enterprise.
18. The company has made 300 fresh grad hires and 100-150 lateral hires in Q2.
19. The management aims to maintain constant currency annual growth at 10-12% for the next few years.
20. The company is indeed looking towards IDV opportunities and is looking for cross-selling with EPD customers for IDV. In the next 2-3 years, the IDV growth rate is expected to be higher than the EPD growth rate.
21. The 14% QoQ growth in other expenses is mainly due to one-time increase in H-1B visa fees.
22. The company saw a forex loss of Rs 1.9 Cr in Q2.
23. Currently, 9% of revenues is coming from the medical business.
24. The company is also expecting to generate Rs 4 Cr of export incentive per quarter. But it has no clarification on the matter yet from the govt.
25. The management has stated that COVID-19 has indeed accelerated transformation towards automation and ensuring continuous operation without disruption in many industries.
26. The management maintains that H2FY21 will be better than H1FY21 for the company.
27. The management has observed that sales and marketing are continually shifting towards digital and it is expected to be a permanent change.
28. The company is indeed seeing demand coming back in the auto sector but it will still a few more quarters for the industry to reach pre-covid activity levels.
29. The management has clarified that the company is not working on the anticipated Tata super app currently.
30. In the auto sector, connected and infotainment continues to lead and accelerate while electric comes after that and ADAS comes last. In Media, OTT & broadband and data-led services are leading for the company.

Analyst Views:

Tata Elxsi had a good quarter with stable revenue growth and robust PBT & PAT 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 other expenses minimal which has helped boost PBT growth. The IDV segment also seems to have been revived with a continued focus on cross-selling this segment services to EPD customers. 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	212	250	-15.20%	196	8.16%	408	514	-20.62%
PBT	46	28	64.29%	36	27.78%	82	56	46.43%
PAT	34	18	88.89%	27	25.93%	61	36	69.44%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	511	574	-10.98%	325	57.23%	836	1200	-30.33%
PBT	41	36	13.89%	-35	217.14%	6	46	-86.96%
PAT	29	24	20.83%	-32	190.63%	-4	25	-116.00%

Detailed Results

1. The quarter was down for the company with a fall in consolidated revenues of 11% YoY but PBT and PAT grew 14% and 21% YoY respectively.
2. H1 performance was down with 30% YoY revenue decline and PAT loss of nearly Rs 4 Cr mainly due to the fall in Q1.
3. QoQ performance was phenomenal for the company.
4. The deferred revenue pool was at Rs 5376 Cr.
5. Strong cash position at Rs 791 Cr and receivables were at Rs 1596 Cr.
6. Occupancy was at 30% for Q2. As of 30th Sep 2020, 37 resorts are operational.
7. The member additions in Q2 were at 2681. Net member additions in H1 were at 3951 with the member base rising to 2,60,955.

8. Digital referral and member engagement rose to an all-time high of 53% in Q2 FY21.
9. The company reduced overall costs by 29% YoY with a major reduction of 36% and 41% in Sales & Marketing and Other Expenses respectively.
10. The company is continuing with planned Capital investments in two ongoing projects at Goa & Ashtamudi, Kerala.
11. In HCRO, 30 out of the 33 resorts are operational.
12. The company saw 90%+ in key resorts during the holiday season.
13. Revenues for HCRO were down 19% YoY. The company saw a cost reduction of 16% YoY. The unit delivered positive PBT in Q2 and PAT of 0.55 million euros.
14. The company also had a forex loss of Rs 9.11 Cr in Q2.
15. Consolidated EBITDA margin improved 356 bps YoY to 24.1% in Q2.

Investors conference call Highlights

1. The company has 80% of its resorts in about 6 to 7 hours from the metro or big cities.
2. Through Great Rockport investment, MHRIL is looking to introduce soft adventure-related experiences for its members in its resorts.
3. The management believes in the growth potential for the company as its target market is the 17 million to 20 million households having an income of INR 15 lakhs and more. The number of households who own vacation ownerships is approximately 350,000, which translates to barely 2% penetration. Thus there is a big room for market expansion and capture for the whole industry here.
4. The major savings in other expenses have come due to a reduction in resort consumption, energy, and travel expenses. These include waivers received by minimum electricity demand charges from various state electricity boards as well.
5. As of date, MHRIL has 26 resorts which are Bureau Veritas platinum-certified as COVID-safe and 15 resorts are ISO 22000 under food and food safety management system-certified.
6. Resort occupancy in Sep was at 41% and is expected to rise with the onset of the festive season in Q3.
7. The states of Maharashtra, Uttarakhand, and Himachal have seen occupancies shooting upwards of 75%.
8. At present, 52 resorts are operational.
9. The company has continued on with its Capex plan despite the disruption from COVID-19.
10. In Q1, the majority of additions were in GoZest while in Q2 the majority of additions have shifted to the flagship 25-year product.

11. The major strategy for GoZest is to create a funnel for future conversion and getting a younger audience for the company. The cost of acquisitions during the upgrade to the 25-year product is almost nil. This is should help to bring down the weighted average cost of acquisition going forward.

12. Video sales have proved to be more efficient for the company since the volumes of meetings have gone up as compared to in-person meetings. The company is also offering an option to the customers to be able to lock-in their 25 years of holidays or 10 years of holidays at the current prices which has been very helpful in improving conversion given the uncertainty.

13. The company hasn't seen any defaults in its VO business due to the pandemic. Some people have requested deferral which comes with a penalty but it is a very small portion of the set.

14. The ultimate goal for sales in MHRIL is to sell the flagship CMH25 product. The lower tenure products also are mostly geared to convert into CMH25 at the end.

15. In the company's portfolio, the dominant part comes from the 25-year product, followed by 10 and followed by 3 and this is the way the management wants it to be.

16. Although Rocksport was a small investment for MHRIL, it is considered to be a strategic one as it creates an option for member engagement in cities and offers something unique which has not been offered by MHRIL before. This new channel can also act as a source for lead generation for the company. The company has only bought 7% of the equity as of now.

17. Despite the big cash reserves, the company is not in a position to pay out the dividend or even do a buyout because its net worth is negative according to Ind AS 115 due to an accounting entry called transition reserve. The company is taking this matter up with the Ministry of Corporate Affairs.

18. The inventory addition of 152 rooms in Goa is expected to be completed by Q4. MHRIL is also looking to add 57 more rooms to this location. The company is also looking at expansion opportunities in some of its existing resorts.

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 791 Cr on the books gives them the comfort to tide the storm of COVID. The company is doing well to expand on its short term offering of Gozest which can be used to convert to 25-year memberships in the future and on its online referral and user engagement growth. The company has also done strategic investments into Rocksport which should help increase user engagement in cities and also provide a source for lead generation. Moreover, HCRO is doing much better with a swift come back to profitability in Q2. Even though travel and tourism is a sector that seems to take a long time to recover and come back to normalcy, MHRIL is utilizing its firepower (read Balance Sheet strength) to continue its expansion plans in Goa and other sites. 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 move on Capex. Nonetheless, given the company's resilient model and the current valuation is not too far from its replacement cost, MHRIL can turn out to be a pivotal travel sector stock 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)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	78	553	-85.90%	75	4.00%	153	1503	-89.82%
PBT	-4	0	-	-3	-33.33%	-7	55	-112.73%
PAT	-5	1	-600.00%	5	-200.00%	5	35	-85.71%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	142	1746	-91.87%	131	8.40%	273	4081	-93.31%
PBT	-123	-6	-1950.00%	-136	9.56%	-259	34	-861.76%
PAT	-100	-26	-284.62%	-109	8.26%	-209	-12	-1641.67%

Detailed Results:

1. Consolidated revenues fell 92% YoY while other income has fallen to Rs 26 Cr from Rs 46 Cr last year.
2. QoQ performance showed improvement in both sales and PAT for the company.
3. Total cash and bank deposits were maintained at Rs 697.8 Cr on 30th Sep 2020. Total Cash & equivalents were at Rs 711.2 Cr as of 30th Sep 2020.
4. The company made savings of 53% & 52% YoY in Q2 & H1 respectively in total consolidated costs.
5. Total savings target elevated to Rs 562.7 Cr in FY21.
6. Forex services saw a business recovery of 43% delivering over 79000 transactions, registering a gross volume of Rs. 12.1 Bn in H1. All branches are now operational.
7. The corporate travel segment saw a revenue recovery of 16%. 44 clients of the recently acquired dnataTravel's corporate travel portfolio have been integrated with the business unit.
8. Leisure Travel businesses of Thomas Cook & SOTC have reopened 153 retail outlets across 72 cities pan India.
9. Over 150 new holiday packages have been launched with attractive pricing and offers.
10. DEI saw revenues of Rs 37.4 Cr vs 8.2 Cr last quarter. EBIT losses reduced to Rs 11.1 Cr from Rs 17.3 Cr in the last quarter.
11. DEI has acquired imaging rights at Dubai Safari Park which has an annual footfall of over 3.7 Mn.

12. DEI has also been chosen as a photography partner for Global Village, UAE's largest multi-cultural festival park (4th largest daily footfall-globally).
13. The National Aquarium, Abu Dhabi has partnered with DEI for its photography operations.
14. DEI is in the concluding stages of finalizing the agreement for providing imaging services and solutions to Expo 2020-stated to be the UAE's biggest event ever with an expected footfall of 18 million guests.
15. The segment performance in Q2FY21 is as follows:
    1. Financial Services: Down 57% YoY
    2. Travel & Related Services: Down 98% YoY
    3. VO & Resorts: Down 69% YoY
    4. Digiphoto: Down 73% YoY
16. The segment performance in H1FY21 is as follows:
    1. Financial Services: Down 64% YoY
    2. Travel & Related Services: Down 98% YoY
    3. VO & Resorts: Down 74% YoY
    4. Digiphoto: Down 82% YoY
17. Sterling saw 260 net member additions in H1. The company added a new 10-year product called Vantage targeted at millennials.

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. These efforts have borne fruit as the company has been able to successfully reduce costs by 53% YoY in Q2 and H1. The company has taken encouraging actions for DEI like winning various commitments for large tourist attractions in the Middle East like Dubai Safari Park which should help expand this business line once normal tourist activity resumes. 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's 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.

Wonderla Holidays

Financial Results & Highlights

Brief Company Introduction

Wonderla Holidays Limited operates amusement parks and resorts in India. It operates through Amusement Parks and Resort, and Others segments. The company's amusement parks offer land, water, high thrill, and kid rides. It operates three amusement parks in Kochi, Bengaluru, and Hyderabad; and the Wonderla resort in Bengaluru under the brand name Wonderla. The company operates Wonder Kitchen, a food takeaway outlet. It also sells merchandise, cooked food, packed foods, etc. The company was incorporated in 2002 and is based in Bengaluru, India.

Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	2	44	-95.45%	2	0.00%	4	165	-97.58%
PBT	-20	-2	-900.00%	-21	-4.76%	-41	60	-168.33%
PAT	-16	0	-	-15	6.67%	-30	42	-171.43%

Detailed Results

1. The company saw revenues stay down in Q2 as well due to a temporary shutdown of operations which started at 50% capacity from 15th Oct in Q3.
2. Bangalore park opened on 13th
3. Approval & SOP from Telangana Government is pending for Hyderabad park.
4. In Wonder Kitchen, the company opened up new branches in Bangalore and Kochi in Q2. Another branch was opened in Hyderabad in Sep. The company now has 4 branches in total.
5. Wonderla Resort Bangalore was reopened for customers from 3rd October 2020.
6. Cash & cash equivalents for the company has come down to Rs 45 lacs in Sep from Rs 3.7 Cr in March.

Investors conference call Highlights

1. George Joseph, the Joint Managing Director, has retired from active management due to the travel and health-related restrictions caused by the pandemic and is now a Non-Executive Director on the Board.
2. Mr Arun Chittilappilly has taken over as the Managing Director.

3. The company is in the process of an enterprise-wide digital transformation which should help increase efficiencies and help the creation of more interactive, dynamic, and immersive attractions, by understanding customer preferences through technologies like data analytics.
4. In Q2, the company had test-launched a new initiative called Wonder Garden, which is a plant nursery-based offering. It offers a range of plants and — indoor and outdoor plants, which the company already has a garden set up in all of its parks for maintenance.
5. The company has reduced its monthly expenses from Rs 10 Cr in March 2020 to Rs 3 Cr in Aug 2020.
6. The company has opened parks in such locations only where it can stay open 365 days without much variance due to weather.
7. The company already has a customer loyalty program with 1.5 lac members but it is a pre-digital system that is going to be digitized.
8. Although merchandising is a big part of sales in the amusement park industry, the company is not actively focusing on it and is more focused on spur-of-the-moment sales of products in its parks.
9. Breakeven footfall for the company is at 1300-1350 per park per day after reopening.
10. In Bangalore, the park will be open only from Friday to Sunday and will be operating land rides only.
11. The company has not been able to start work on the Chennai park and it will renegotiate that whole thing with Chennai Government because it feels that the LBT is an unfair tax burden on the amusement park. Once that clearance is approved, construction will start and then at that point, the company will decide whether it needs debt.
12. The management doesn't see a big-ticket investment in Odisha.
13. The construction of a new amusement park takes around 18 months typically. The company has not gotten the govt approval to start construction in Chennai and is waiting on it to start the construction.
14. The company has asked for a lifetime waiver of the tax LBT because it feels that the tax is too high and the renegotiation is still going on.
15. The fixed assets in Chennai are valued at Rs 109 Cr including Rs 88 Cr for the land.
16. The biggest issue in setting up amusement parks is the different tax issues in it. At the time of the company IPO, the tax on each ticket was at 5-8%. Because of GST, it has gone up to 18%. And some places like Tamil Nadu add on an extra tax of 10% bringing up the total tax on the ticket to 28% which is too high for a Capex heavy industry.
17. Chennai Capex is expected to be at Rs 300 Cr while Odisha Capex is expected to be at Rs 100 Cr.
18. The idea behind Wonder Kitchen was to keep some of its staff occupied and, with practically zero investment, generate an alternate source of income. This is a highly scalable model as it doesn't have any requirements for prime real estate. It also provides the company with a high recall value which is important as the company has very low repeat business. The company is now concentrating on perfecting the business model first.

19. The company will be using both its own app-based delivery system and third-party apps like Swiggy and Zomato. Around 30-40% of orders come from third-party apps.
20. The company doesn't have any issues with raising debt to fund expansion and in constructing new projects. The major roadblock in new expansions is local tax and approval issues which take a lot of time to get through.
21. Currently, the company is manufacturing only for its own consumption. It can build rides and maintain them at a very low cost compared to its competitors. But the management does not see manufacturing as a big opportunity here.
22. The company is on the lookout for new opportunities for operating existing parks. It is not willing to be an equity partner in them and is only looking at managing and running these parks.
23. The company may look for partners or allies for adventure sports and activities but it will not pursue them on its own.
24. The key criteria for selecting a location for the company to build parks are weather and population size in a 300-500 km radius.
25. There are opportunities in other countries. Wonderla has been approached by Sri Lanka and Bangladesh as well. The company is exploring options to see whether it can partner up with someone for it in Sri Lanka.
26. The company is open to Northern India but the issue here is the extreme weather which can force the open park to stay closed for 4-5 months. A better option at such places will be closed or indoor parks.

Analyst's View

Wonderla Holidays is India's leading amusement park operator. This business has strong entry barriers because of high Capex and long gestation cycle. Wonderla has been able to manage its operations well over the years and create a niche space for itself. However, COVID-19 played a spoilsport for them. The business for first half of the year was fully impacted with nil operating revenue from park operations. In the meantime, the company has focussed on cost-cutting measures. They also improvised by venturing into the Wonder Kitchen segment. It serves two purposes: keeps the employees engaged and also gives some much-needed revenue. However, it is too small and the business model is still evolving. The Bangalore park was reopened on 13th November after complying with all COVID-induced restrictions. It remains to be seen how much time it will take for normalcy to come back in their business. However, Wonderla has the potential to positively surprise once all the parks are opened and the footfall comes to pre-COVID level.