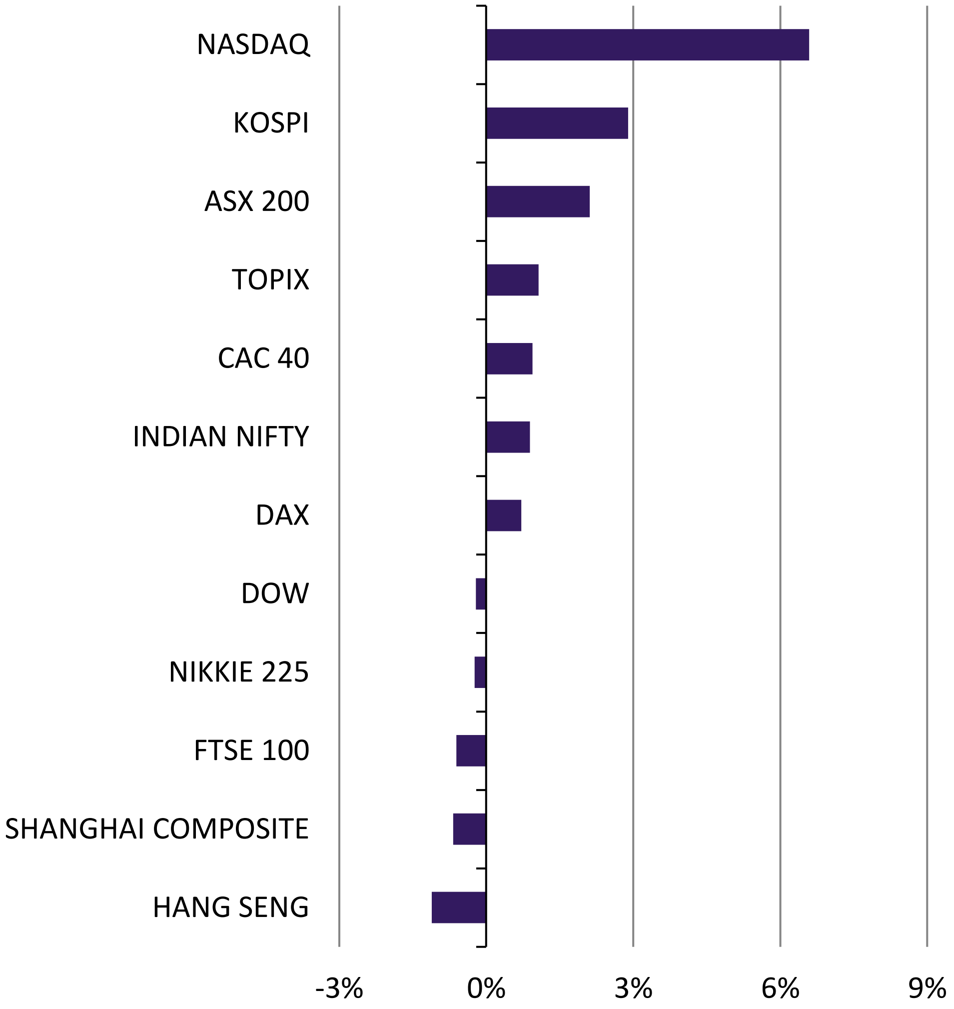
# BESPOKE

Advice for a select few

ANANDRATHI
PRIVATE CLIENT GROUP
EQUITY
PCG

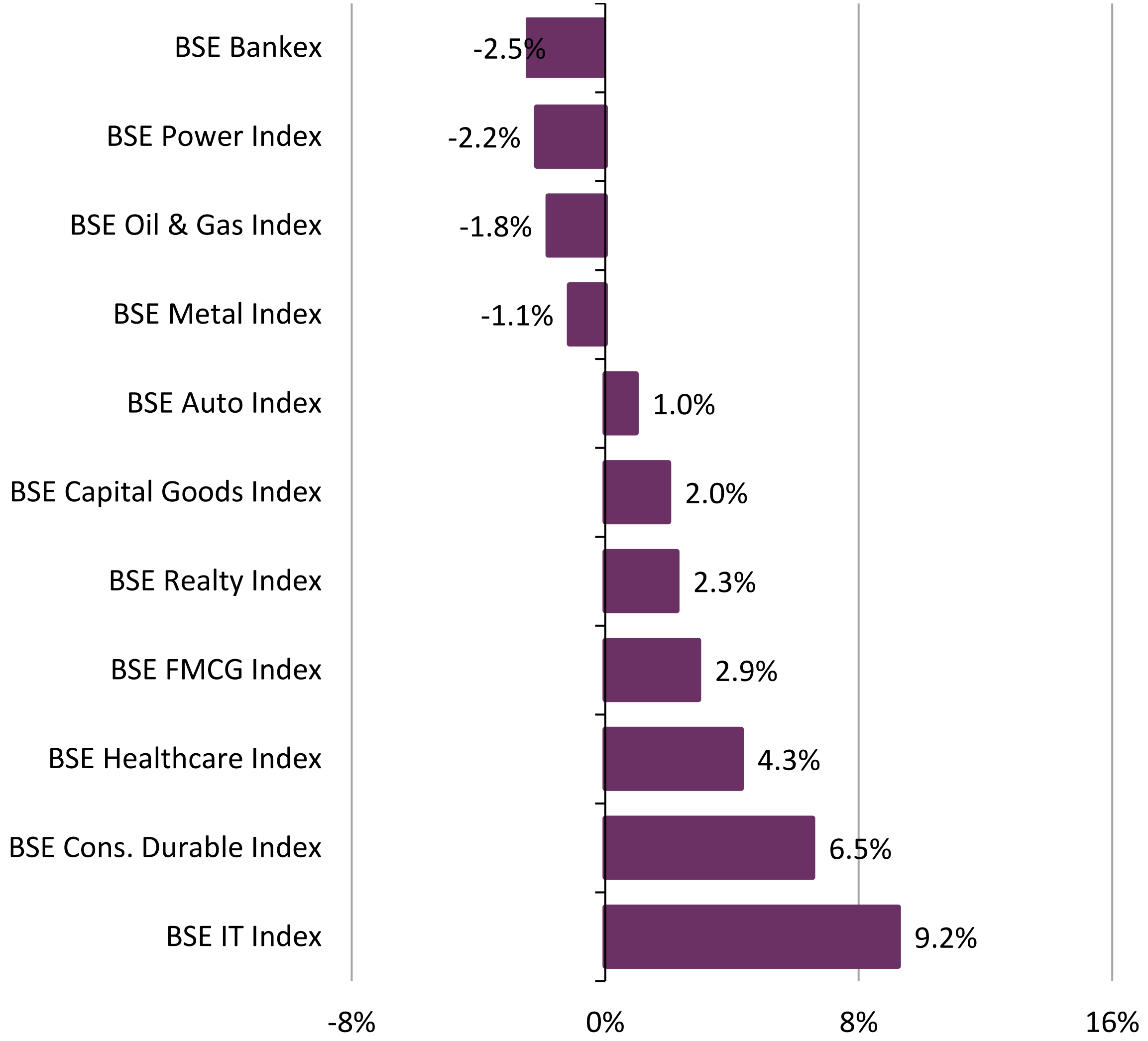
# Equity Investing: *Global Markets Update*

## Global Markets performance in Jun-21

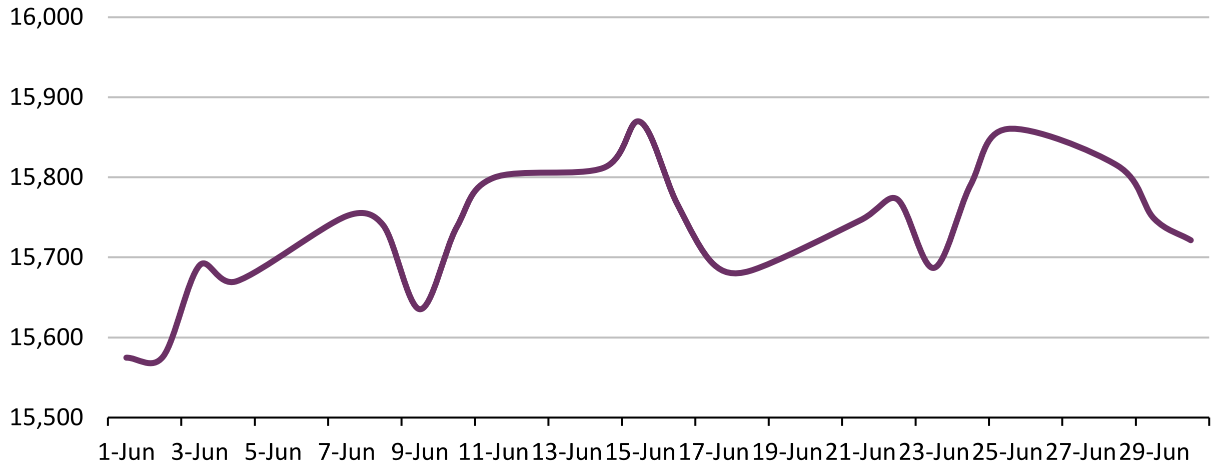


# Equity Investing: *Monthly musings*

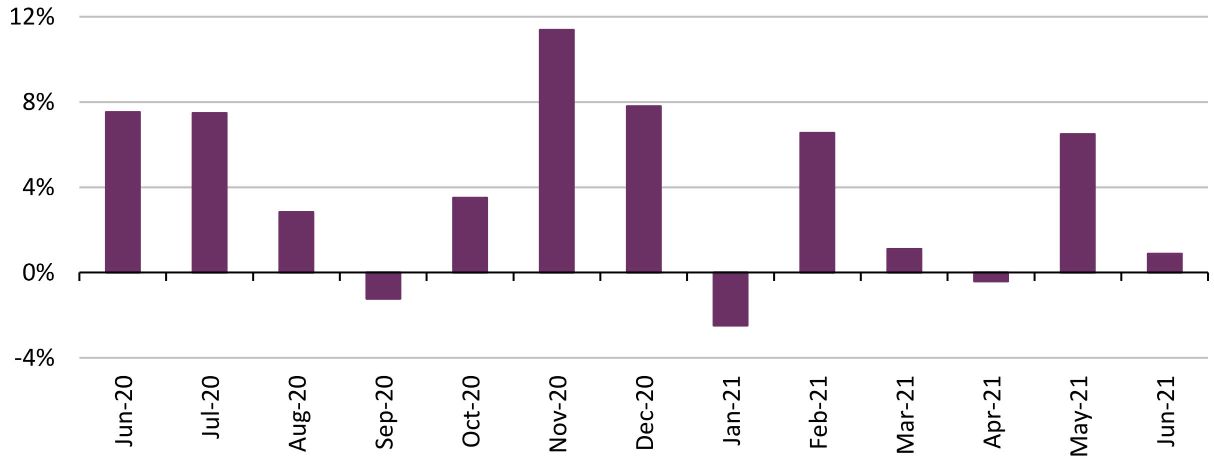
## Sector wise performance during the month




## NIFTY Performance in Jun 2021

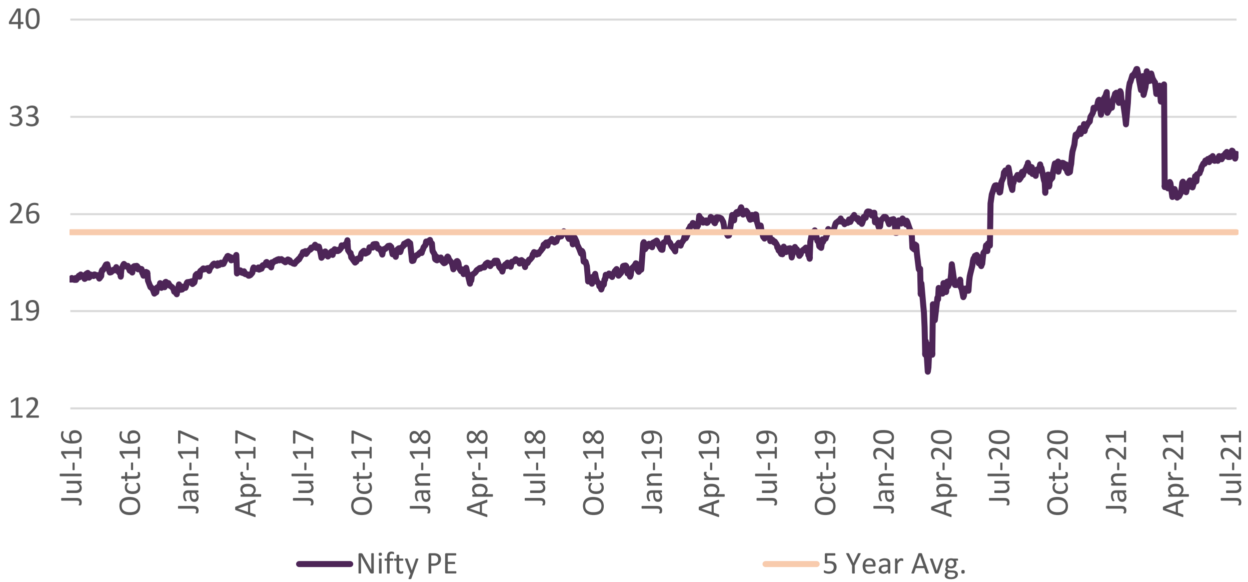



## NIFTY monthly performance for trailing 12 months

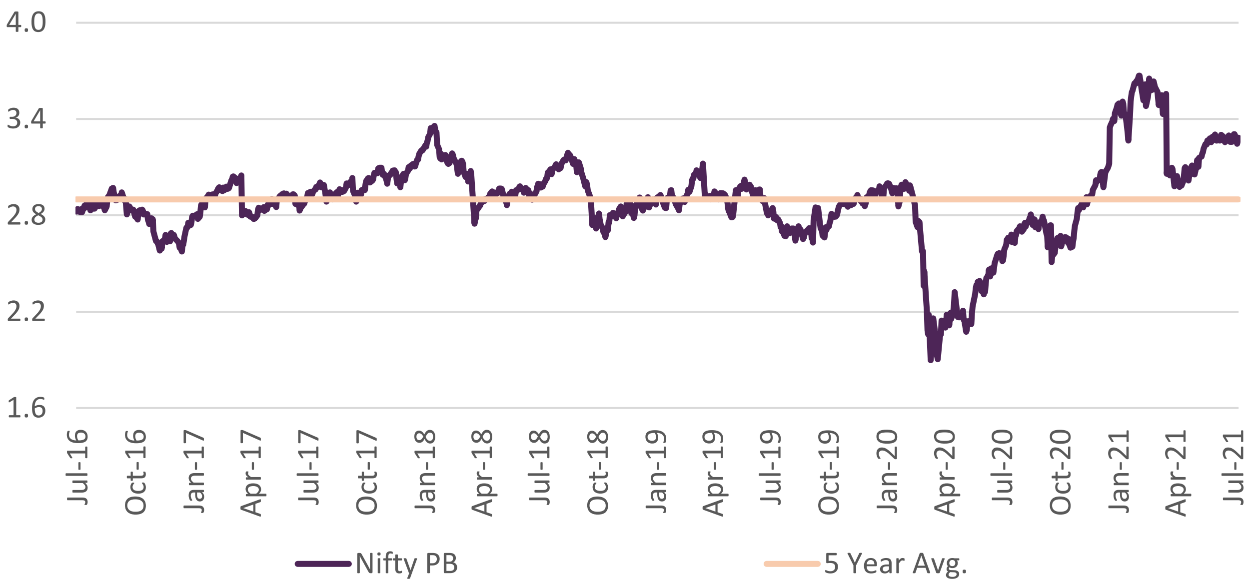


# Equity Investing: *Index valuations*

## Nifty Trailing 12M P/E & 5 Yr. Avg. P/E



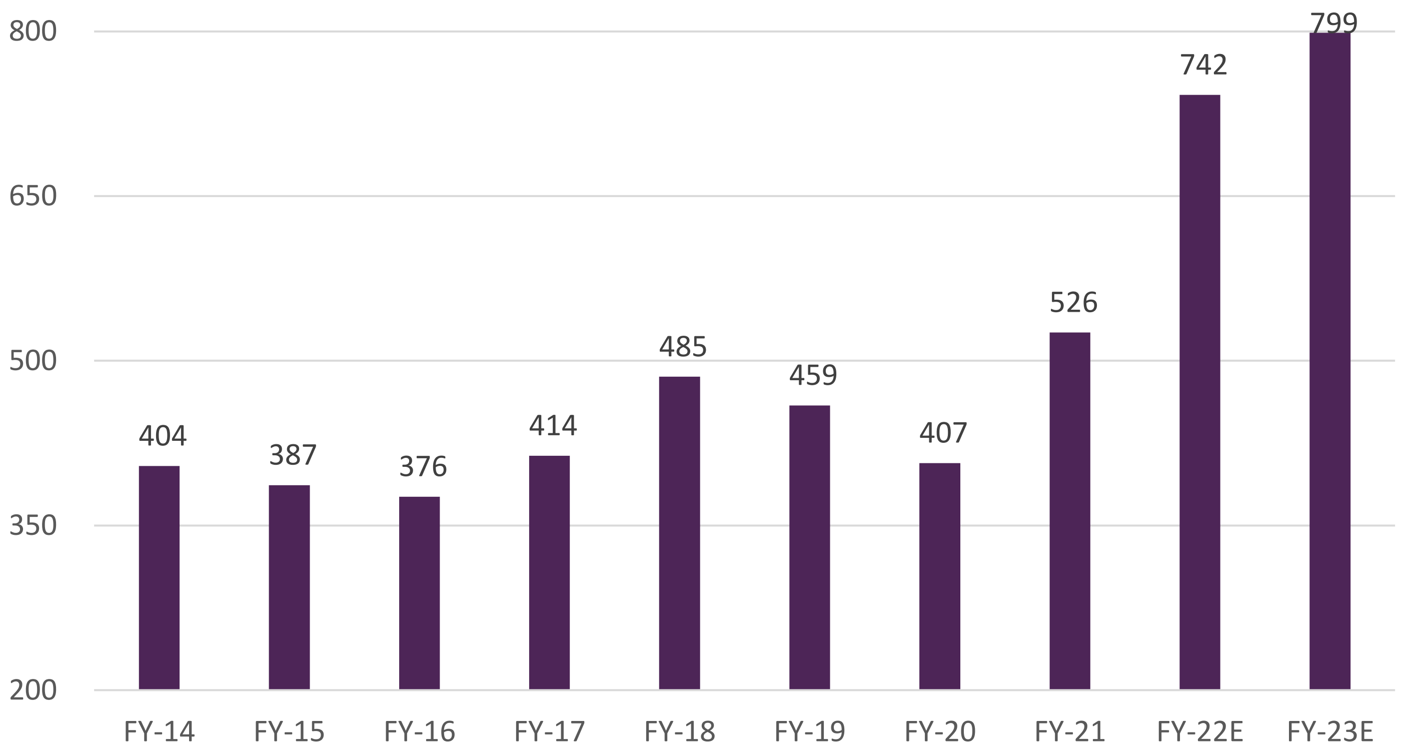

## Nifty Trailing 12M P/B & 5 Yr. Avg. P/B




- Currently Nifty50 is trading at around 30.3x its trailing 12 month price to earnings ratio while its five year historical average price to earnings ratio stands at around 24.7x. A premium of around 23% from its five year historical average.
- In terms of price to book ratio, the Nifty50 is trading at around 3.3x it price to book while its five year historical price to book ratio stands at around 2.9x. A premium of around 13% from its five year historical average.

# **Equity Investing:** *Index valuations contd.*

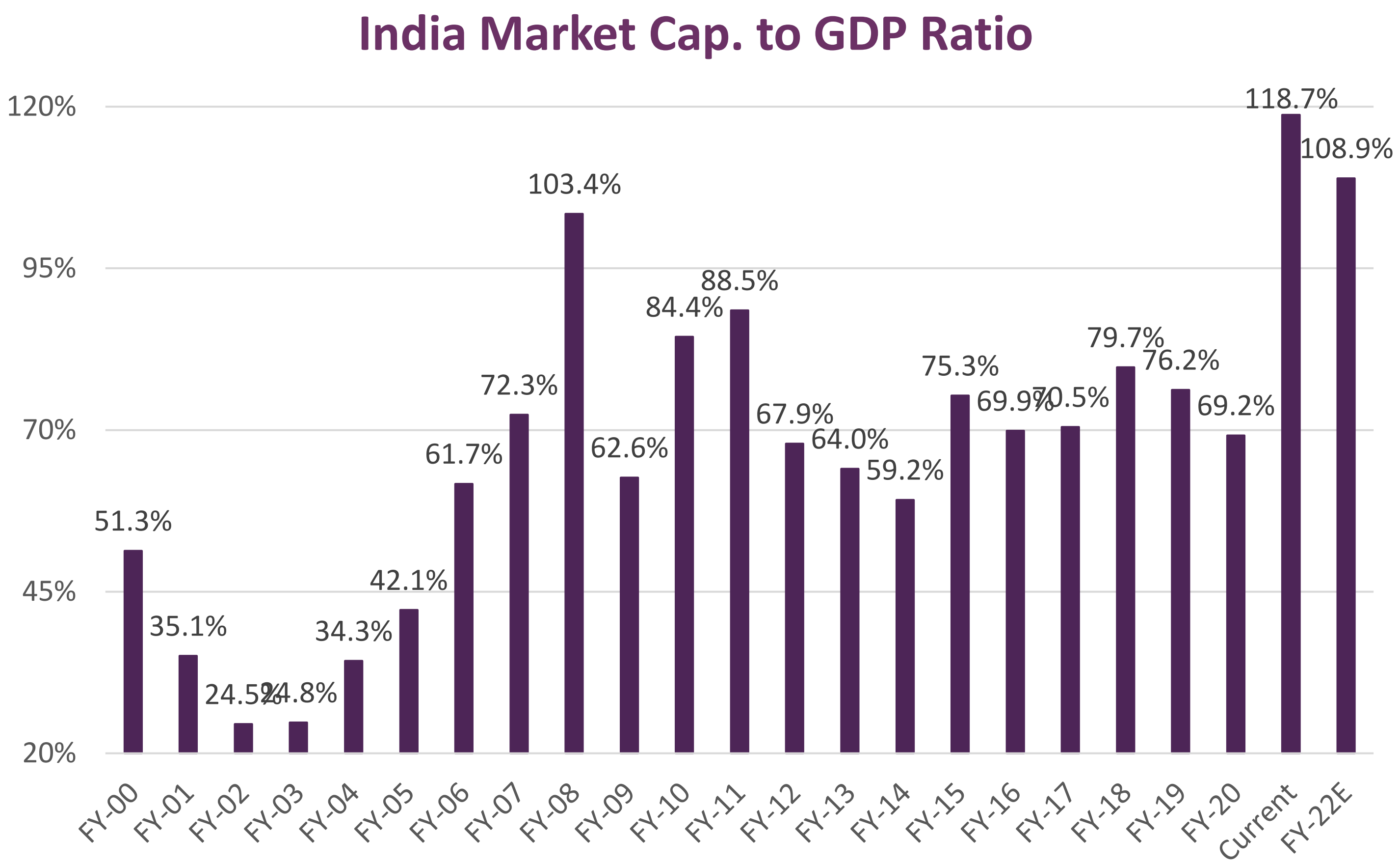
## Nifty Historical and Estimated EPS (Consensus)




- Nifty50 earnings are estimated (consensus) to grow at a CAGR of about 23% in next two years from FY21 onwards till FY23.

# Equity Investing: *Broader Market valuations*

ANANDRATHI PRIVATE CLIENT GROUP EQUITY




- Currently India’s listed companies market capitalisation to GDP ratio stands at about 108.9% at month end while it was about 106.7% at the start of the Jun-21 month. The ratio is considered an indicative of overall equity market sentiments and cycles.
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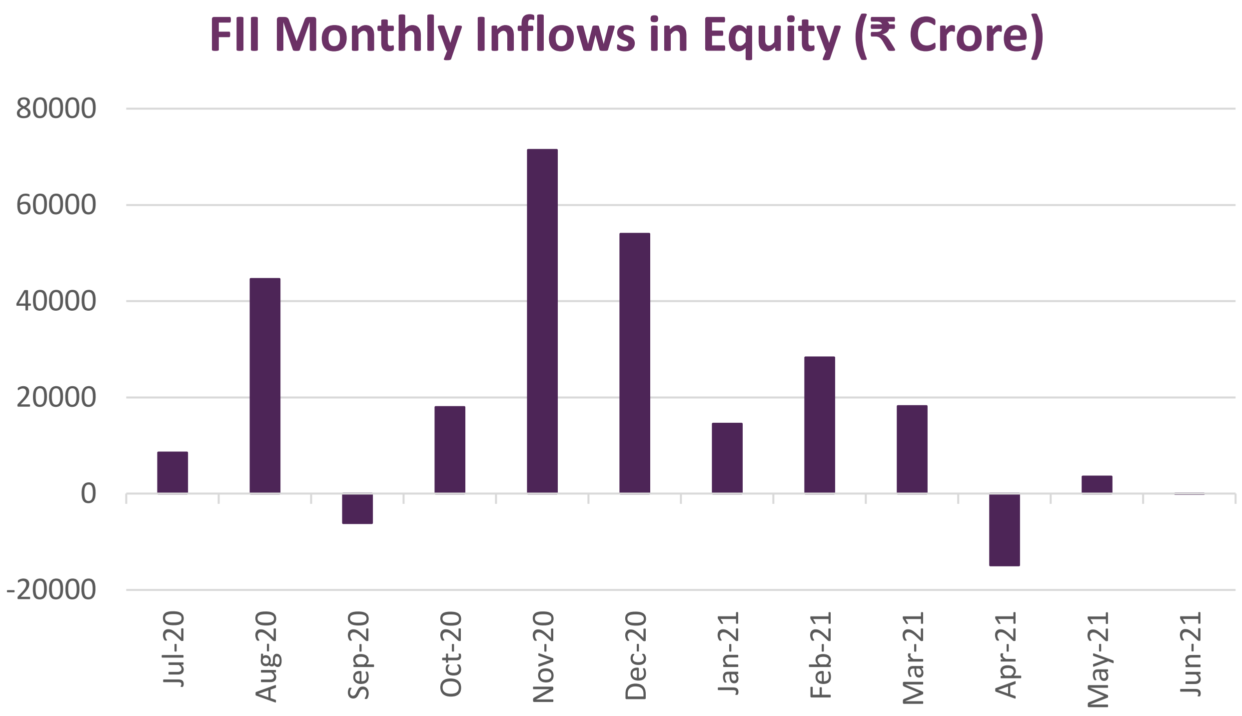
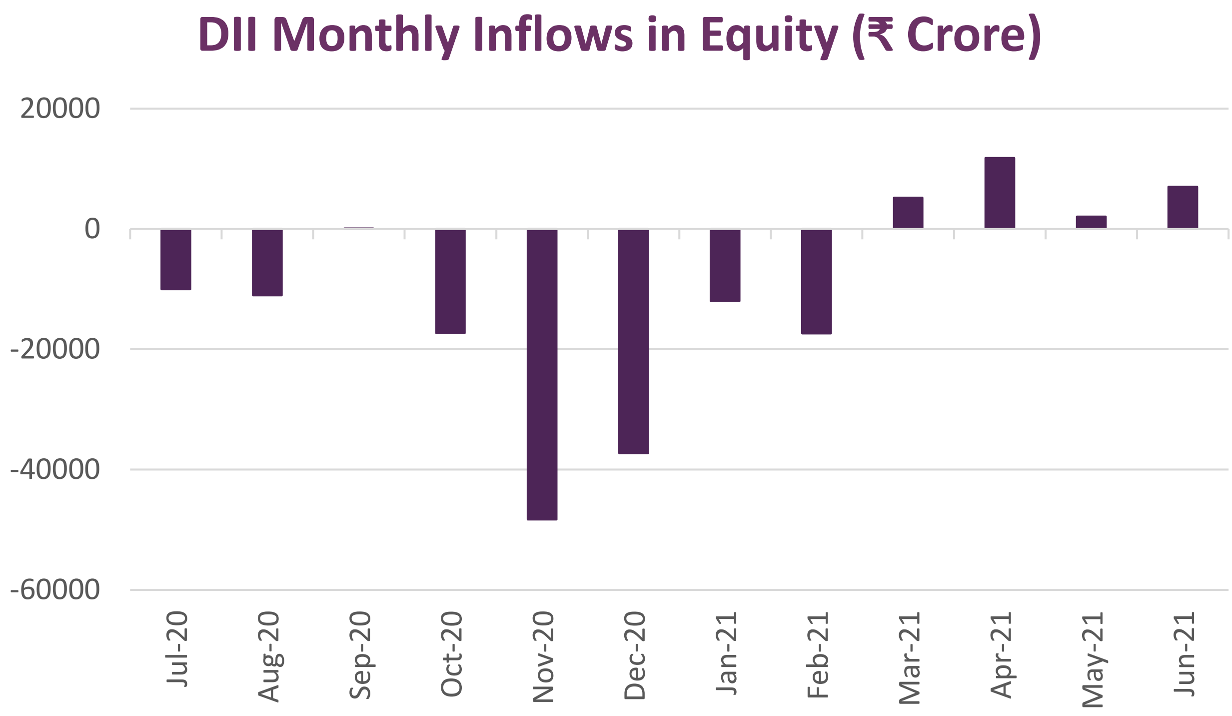
# Equity Investing: Big *Money Flow*

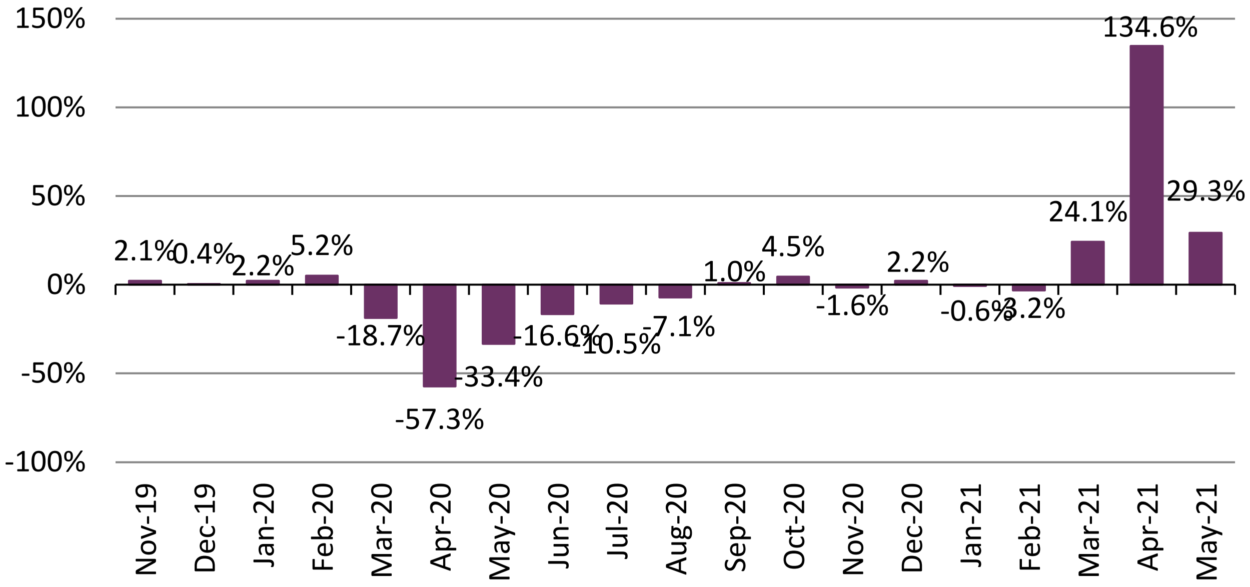


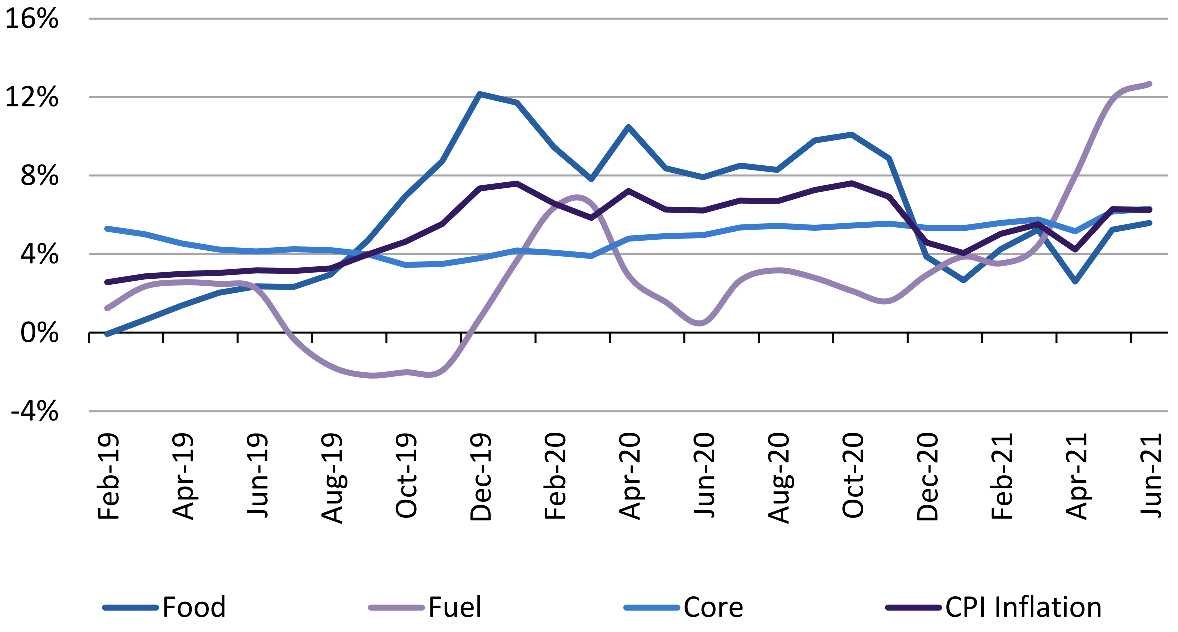

- FII monthly inflows for the month of Jun-21 has seen net outflows of almost ₹26 crores which is third negative monthly number in past twelve months.
- On the other hand, domestic funds have seen fourth consecutive monthly net inflows which stood at around ₹7,044 crores.

# Equity Investing: Growth & Inflation

## IIP Growth (%) trend (2011-12 base)



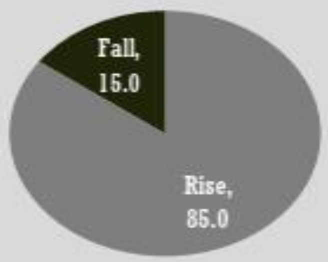

## Food, Fuel, Core & CPI Inflation (%) YoY



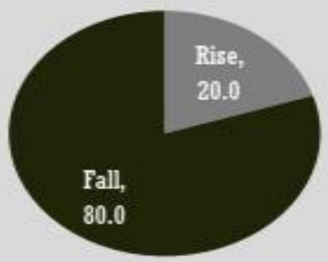

- Index of Industrial Production (IIP) data for the latest month May-21 showed an uptick in industrial activity. The index stood at 29.3% for the month.
- Latest inflation data released showed increase in overall inflation with core inflation at 6.3%, CPI at 6.3%. The Food inflation for the Jun-21 month stood at 5.6% while fuel inflation increased to 12.7% for Jun-21 month.

# GDP Growth

GDP growth improving across the board



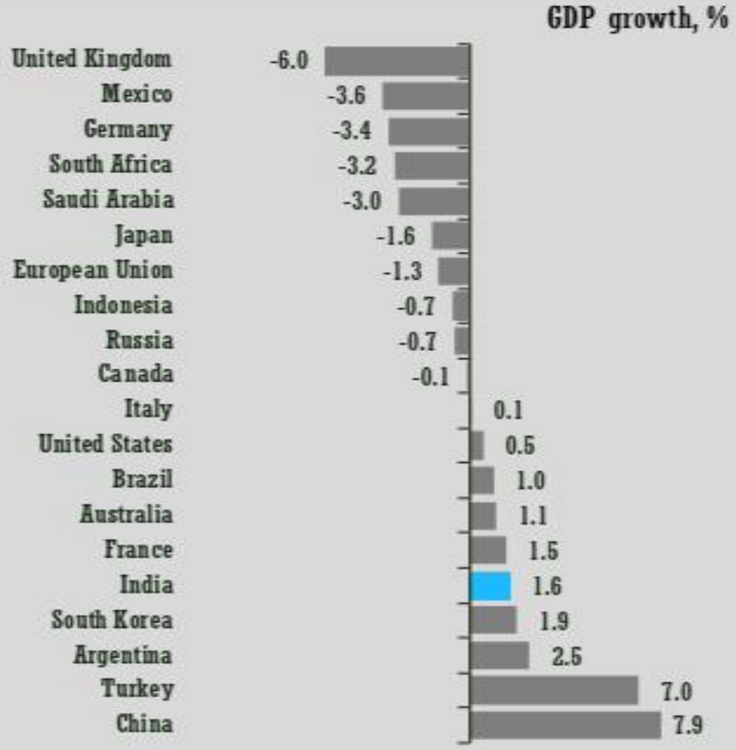

IIP data, however, showing slowdown of growth



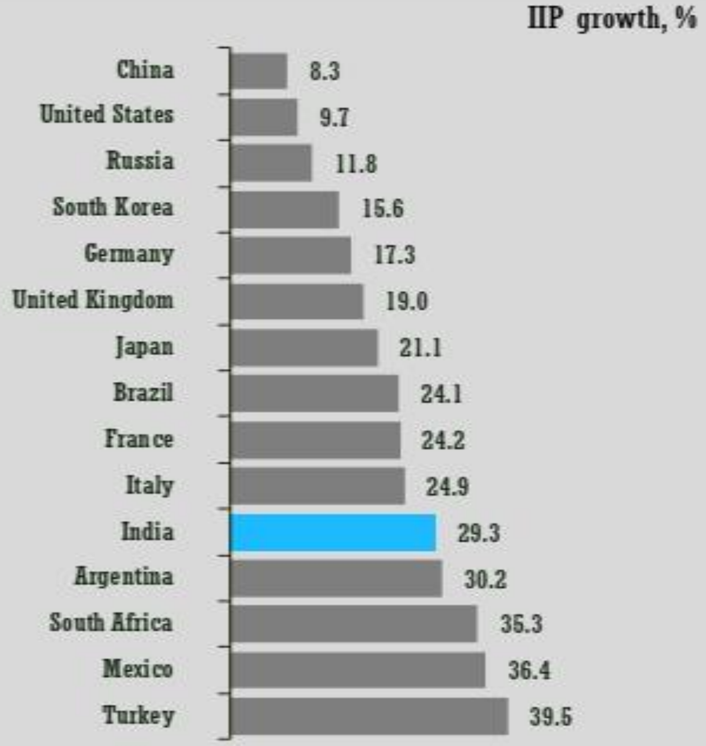

## GDP and Industrial Production

### Global growth is improving partly because of the depressed base but also as lockdown restrictions getting removed and demand bouncing back

More countries are recording positive GDP growth. China still the fastest growing economy




With depressed base, industrial production growing strongly. Base effect impacted China

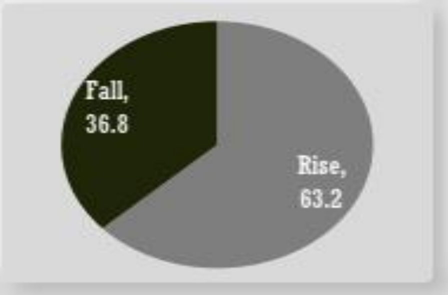


# Inflation & Exchange Rate

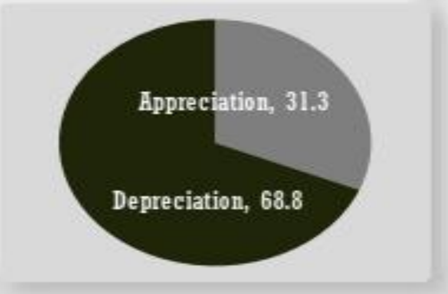
## Inflation & Exchange Rate

**Rising inflation raising concerns on the future of monetary policy stance. We expect the rise to be transitory. After considerable depreciation since April'20, dollar is bouncing back**

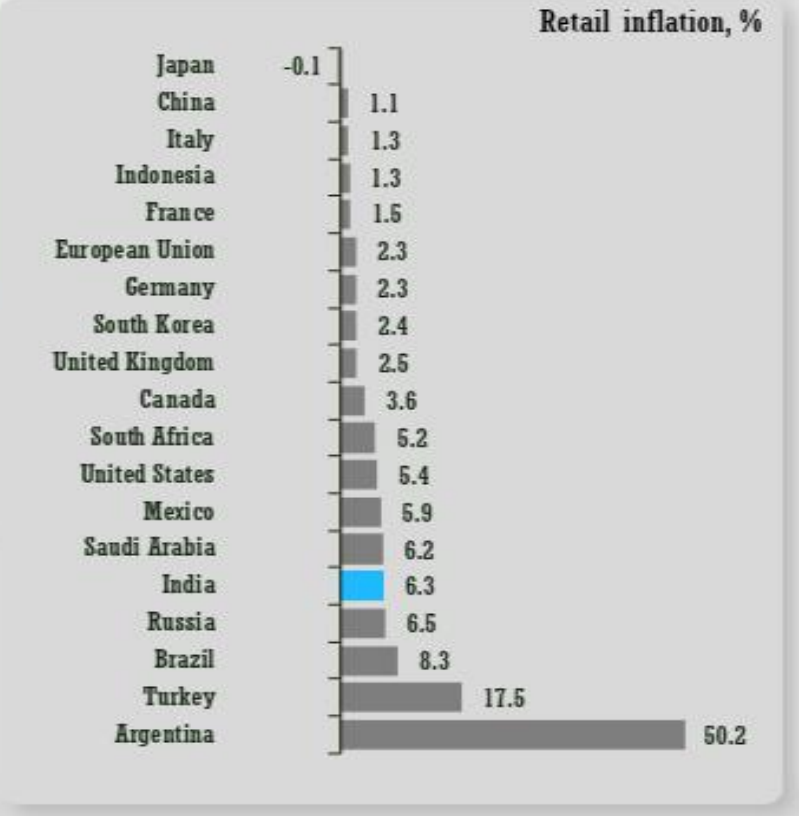
More countries recording rise in inflation



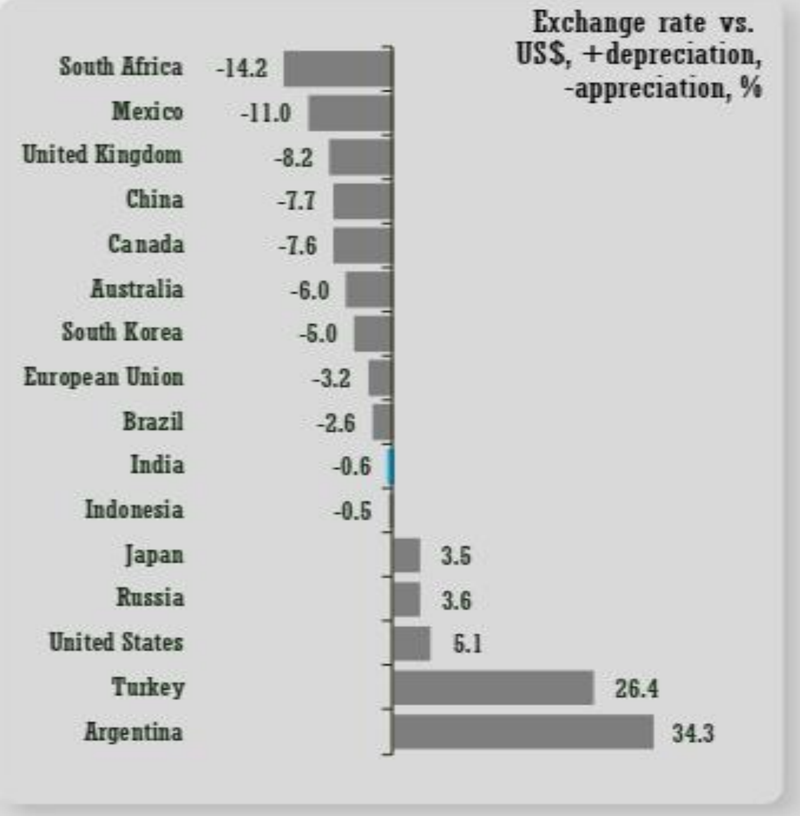

Recently dollar has appreciated versus most currencies




Inflation has risen considerably putting pressures on bond yields and raising questions on easy monetary policies



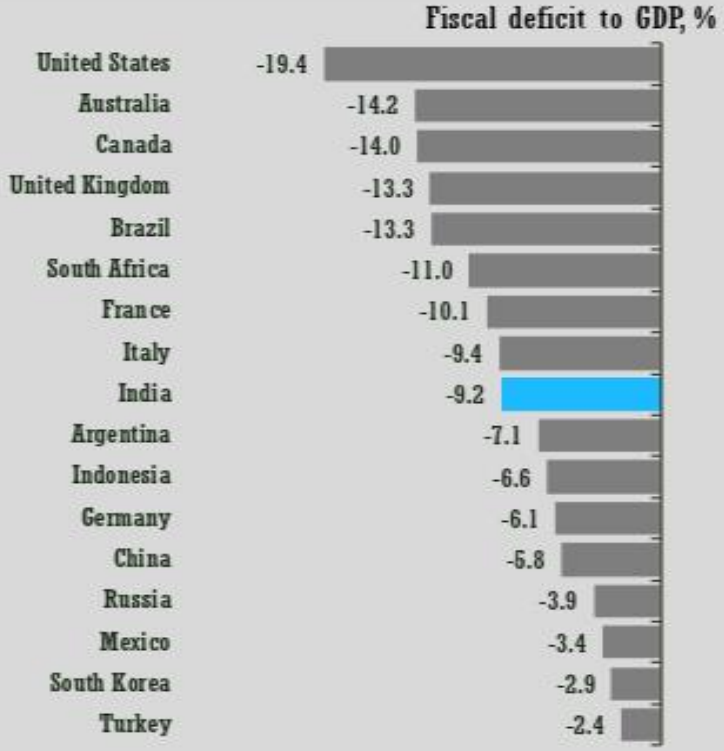

Despite the recent bounce back, US dollar has depreciated considerably against most currencies in last 12 months



# Fiscal Deficit & PMI

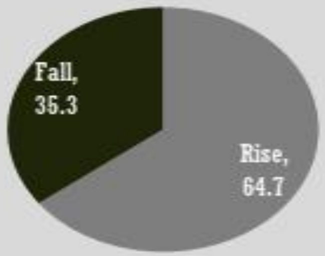
**Despite bounce back, with questions on sustainability of growth, fiscal deficit in most countries remain elevated. While manufacturing PMI suggest continuation of growth, there is deceleration**

Fiscal deficit to GDP deteriorated in all countries and currently remain highly elevated

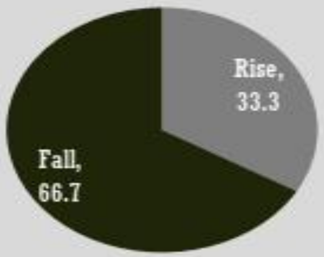



Most G-20 countries recorded manufacturing PMI of over 50 which suggest continuation of growth


Fiscal deficit continues to rise in two-thirds of countries




Growth outlook deteriorating in two-third countries



# Model Basket / Portfolio

**Objective:**

- Focus on Return Optimization by investing in multi cap portfolio of rising enterprises with sound corporate track record and sustainable business model keeping balance between value and growth strategy.

Value investing is the art of buying stocks which trade at a significant discount to their intrinsic value. Portfolio Manager achieve this by looking for companies on cheap valuation metrics, typically low multiples of their profits or assets, for reasons which are not justified over the longer term.

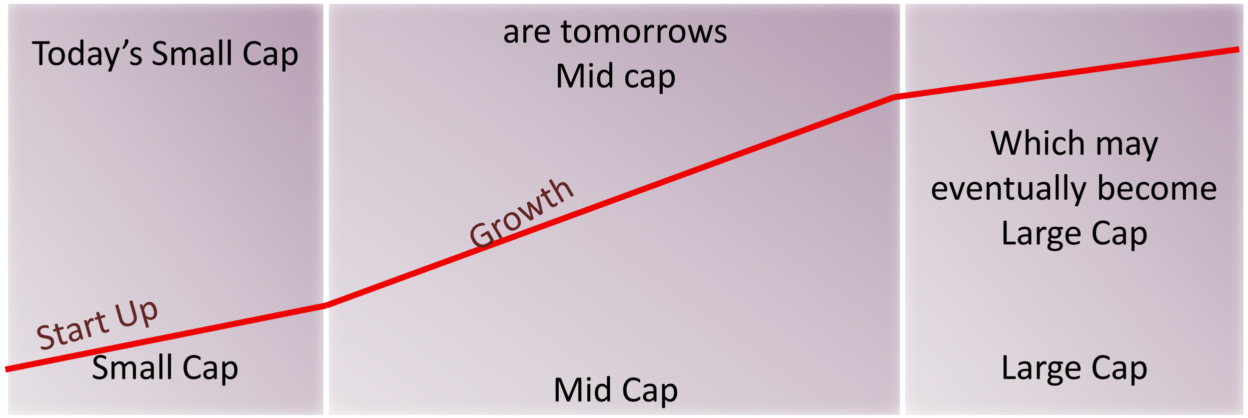
Growth investing is a style of investment strategy focused on capital appreciation. Portfolio Manager invest in companies that exhibit signs of above-average growth, even if the share price appears expensive in terms of metrics such as price-to-earnings or price-to-book ratios.

Value

Growth

# Why Multi-cap Strategy

|  | Bull Period | | | |
|---|---|---|---|---|
|  | Apr-03 | Dec-07 | CAGR | Volatility |
| **Sensex** | 2960 | 20287 | 51.0% | 22.0% |
| **BSE Mid Cap** | 952 | 9789 | 64.6% | 25.0% |
| **BSE Small Cap** | 893 | 13348 | 78.4% | 31.6% |
|  | **Bear Period** | | | |
|  | Dec-07 | Dec-11 | CAGR | Volatility |
| **Sensex** | 20287 | 15455 | -6.6% | 31.2% |
| **BSE Mid Cap** | 9789 | 5135 | -14.9% | 40.5% |
| **BSE Small Cap** | 13348 | 5550 | -19.7% | 45.4% |
|  | **Current Bull period** | | | |
|  | Dec-11 | Dec-19 | CAGR | Volatility |
| **Sensex** | 15455 | 41254 | 13.0% | 9.0% |
| **BSE Mid Cap** | 5135 | 14968 | 14.3% | 12.0% |
| **BSE Small Cap** | 5550 | 13699 | 11.9% | 13.5% |




- ❖The table shows outperformance of the Mid Cap and Small Cap Index over the Sensex Index during the Bull Period.
- ❖Outperformance of the Mid Cap and small caps happens because of better earnings growth in the bull phase.
- ❖The P/E for Mid cap and Small Caps also expands as earnings growth is superior v/s Sensex earnings growth.
- ❖Identifying the business within attractive valuation compare to their growth is key factor for outperformance.
- ❖Returns delivered from Mid Cap and Small Cap do outperform the Large Cap, however one should keep in mind the risk associated with it as we see the higher volatility in it. Therefore we emphasis on stringent stock selection strategy and create a diversified Multi-cap portfolio to create alpha over the benchmark.

# Investment Process

## Stock Selection

**Business Model** either in
1) Improving Market Share 2) Leadership
3) Niche Business Model

**Rising Enterprises**
1) Stable and Improving Margins
2) Improving ROE and ROCE

**Sustainability**
1) Visibility of Earnings over next 2-3 years
2) Predictable business model

**Sound Corporate Track Record**
1) Management back ground
2) Accounting & Corporate policies

## Allocation

**Sector opportunity**
1) Sector potential to grow
2) Cyclical / Non Cyclical 3) Favoring Policies

**Diversification**
1) Sectorally well diversified portfolio of 15-20 stocks across Market Capitalization

**Exposure**
1) Single Stock exposure < 10%
2) Single Sector exposure < 30%

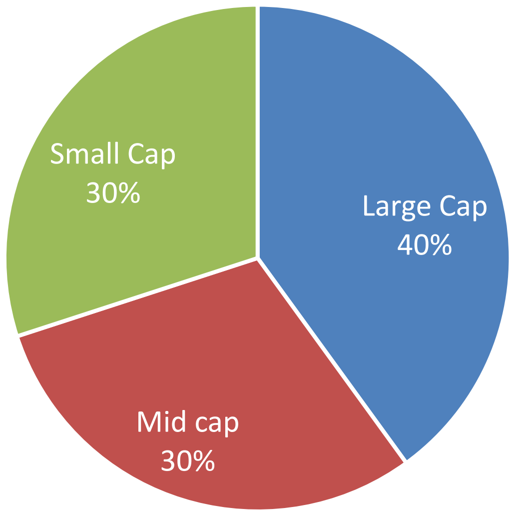
# Top Holdings & Allocation

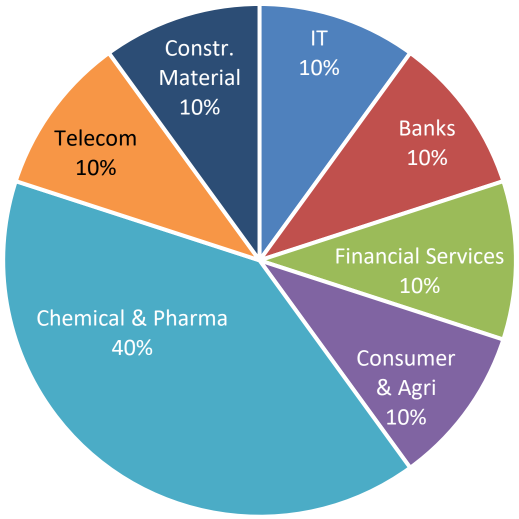
| S.No. | Large Cap | % Weight |
|---|---|---|
| 1 | UPL Limited | 10% |
| 2 | ICICI Bank Limited | 10% |
| 3 | HCL Technologies Limited | 10% |
| 4 | Bharti Airtel Limited | 10% |

| S.No. | Mid Cap | % Weight |
|---|---|---|
| 1 | Aarti Industries Limited | 10% |
| 2 | Nippon Life Asset Management Limited | 10% |
| 3 | Alkem Laboratories Limited | 10% |

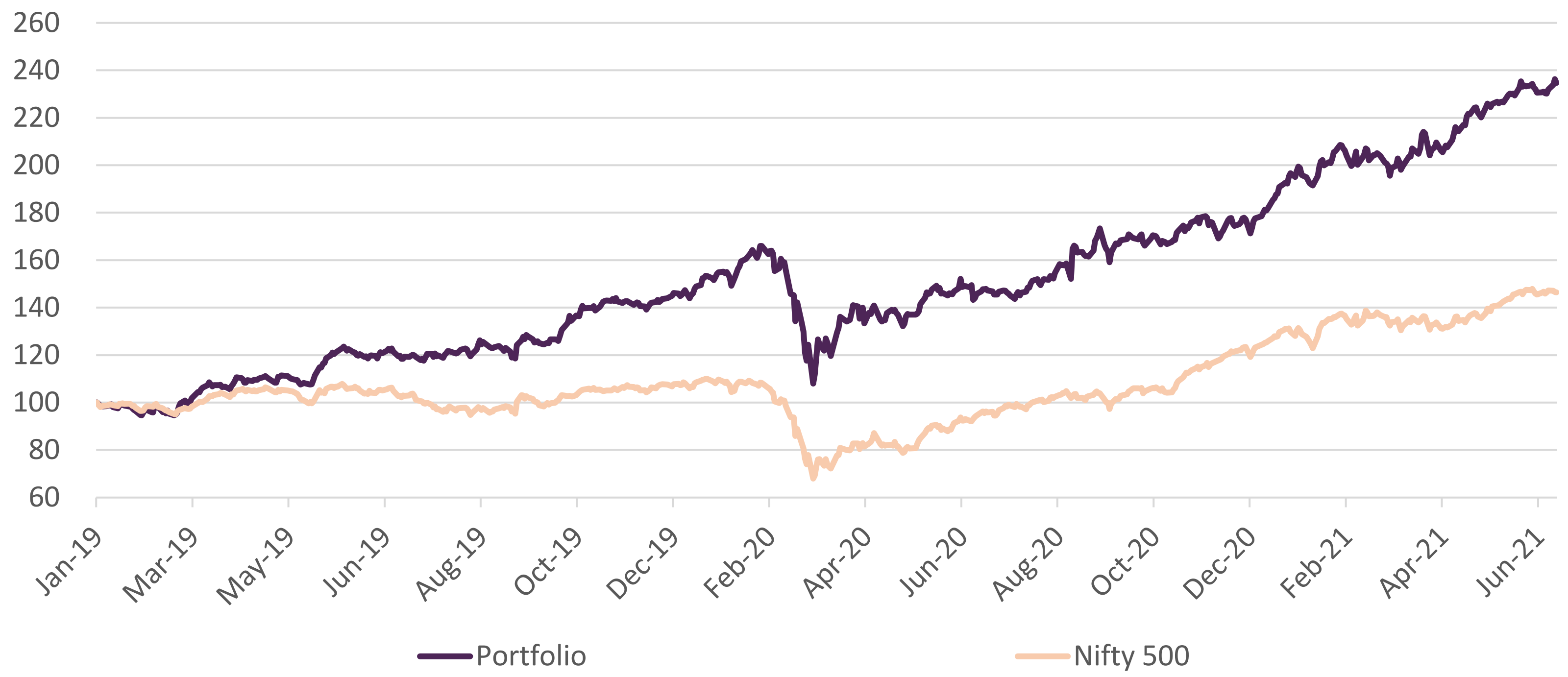
| S.No. | Mid Cap | % Weight |
|---|---|---|
| 1 | Vinati Organics Limited | 10% |
| 2 | Heidelberg Cement India Ltd. | 10% |
| 3 | NOCIL Limited | 10% |

NOTE: Basket /Portfolio is Equal weight with monthly rebalance strategy. As of 30th Jun 2021.



# Basket / Portfolio Performance




| Period | Portfolio % Return | Nifty500 % Return |
|---|---|---|
| One month | 2.2% | 1.9% |
| Three months | 15.2% | 9.4% |
| Six months | 29.7% | 17.0% |
| One Year | 57.1% | 59.0% |

NOTE: Performance as of 30th Jun 2021.

# What to Expect in near term

- **Positives:**
- Overall good results in Q4-FY21 and fairly stable start of results season Q1-FY22 so far.
- Good Monsoon expectations
- Good GST data so far
- Sustained domestic support by both GoI and RBI
- Global support to also continue

- **Negatives:**
- Fed talks of taper
- Fed talk of taper results in some action.
- Global uncertainty on security aspects etc.
- Sharp rise in crude oil and global energy dependent commodities
- Inflation expectations taking hold in developed markets.
- Fear of third Covid wave in developed markets.

# Basket / Portfolio Stocks Rationale

## UPL Ltd. (UPL)

- UPL Limited is one of the top 5 crop protection product companies worldwide. The company's diverse product portfolio includes fungicides, herbicides, insecticides, plant growth regulators, rodenticides, specialty chemicals, nutri-feeds, seeds and seed treatment products. UPL currently has 48 manufacturing facilities across the world and presence in more than 130 countries. Region wise, during FY21, Latin America constituted 38% of total revenues, followed by 15% in North America, 17% in Europe, 12% in India while rest of the world accounted for 18% of the revenues. UPL intends to strengthen its presence in markets like Asia and Africa for driving further growth.

- The company is committed to their debt reduction plan. A sustainability loan has been raised by the company to replace the existing acquisition loan. The entire USD750m raised over Mar–Apr'21 has been used to repay the acquisition loan. As a result, the corresponding interest cost has declined by 30basis points and maturity has been extended by two years.

- UPL Ltd reported consolidated revenue of ₹ 1,27,960 million in Q4 FY21, a growth of 14.9% YoY. Good revenue growth was primarily led by Latin America (LatAm), India, and Europe. The company's EBITDA margin expanded ~363 basis points YoY to 20.7% recording ₹ 26,510million in Q4 FY21. The company was facing subdued growth and currency devaluation affects in some regions, however by increasing focus on higher margin products implementing costs synergies drove margin expansion in Q4FY21.

- The Profit after Tax (PAT) for Q4 FY 21 came in at ₹ 10,630 million as compared to ₹ 6,170 million during Q4 FY20 recording growth of 72.3% YoY.

- The company plans to incur capex of USD 300 to 320 million in FY22 as against USD 275million in FY21.

# Basket / Portfolio Stocks Rationale

## ICICI Bank Ltd. (ICICIBANK)

- ICICI Bank is a large private sector bank in India offering a diversified portfolio of financial products and services to retail, SME and corporate customers. The Bank has an extensive network of branches, ATMs and other touch points. It is at the forefront of leveraging technology and offering services through digital channels like mobile and internet banking.

- The company reported a net interest income growth of 17% in its Q4-FY21 standalone results at ₹104,310 million as against ₹89,270 million in Q4-FY20, driven by advances growth of 14% and a net interest margin of 3.84%. Non-Interest Income, excluding treasury income increased by 3% YoY to ₹41,370 million in Q4-FY21.

- Provisions (excluding provision for tax) were ₹28,830 million Q4-FY21 compared to ₹59,670 million in Q4-FY20. During Q4-2021, the Bank utilised contingency provision amounting to ₹35,090 million towards proforma NPAs as of December 31, 2020, as these loans have now been classified as per the RBI guidelines. Further, the Bank made additional Covid-19 related provisions of ₹10,000 million during Q4-2021.

- Core operating profit (profit before provisions and tax, excluding treasury income) grew by 20% year-on-year to ₹85,650 million in Q4-FY21.

- Profit after tax grew by 260.6% YoY to ₹44,030 million in the quarter ended March 31, 2021 compared to ₹12,210 million in the quarter ended March 31, 2020.

- Total advances increased by 14% YoY to ₹7,337,290 million at March 31, 2021 from ₹6,452,900 million at March 31, 2020. The year-on-year growth in domestic advances was 18% at March 31, 2021. The Bank has continued to leverage its strong retail franchise, resulting in a 20% YoY growth in the retail loan portfolio at March 31, 2021. Growth in the performing domestic corporate portfolio was about 13% YoY.

- During the quarter, the gross additions to NPAs were ₹55,230 million. Recoveries and upgrades, excluding write-offs, from nonperforming loans were ₹25,600 million in Q4-FY21. The net NPA ratio decreased from 1.41% in March 31, 2020 to 1.14% in March 31, 2021.

- We remain positive on ICICIBANK, considering a strong b/s (granular, sticky liability base, lower stress levels, high provision coverage ratio and adequate capital adequacy ratio), strong growth in advances, high casa ratio and improving asset quality.

# Basket / Portfolio Stocks Rationale

## HCL Technologies Ltd. (HCLTECH)

- HCL Technologies is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. In order to thrive in the digital age, technologies such as analytics, cloud, IoT and automation occupy center stage. In order to offer enterprises the maximum benefit of these technologies to further their business objectives, HCL offers an integrated portfolio of products and services through three business units. These are IT and Business Services (ITBS), Engineering and R&D Services (ERS), and Products and Platforms (P&P).

- The company reported strong results for the quarter under review. Revenue from operations improved by 5.7% year-on-year to ₹196,410 million on a reported basis. In constant currency (CC) terms the revenue grew by 2.6% YoY. The company reported healthy revenue growth mainly led by better performance in Americas & RoW (geographically).

- Mode-2 business grew by 25.2% YoY. Segment wise, Product Platforms and IT business services led growth during for the quarter by 3.3% & 3.7% YoY respectively. Among verticals – Financial Services, Technology, Retail, Telecommunications, Life sciences and Public Services led the growth by 3.6%, 11.%, 1.3%, 0.5%,18.1%, 2.2% YoY respectively.

- On profitability front, the EBITDA from operations for the quarter declined by 6.4% year-on-year at ₹45,490 million with a margin of 23.1%. The company achieved the reported PAT of ₹11,020 million, a decline of 65.3% year-on-year with a net margin of 5.6% translating into EPS of ₹4.06 per share for the quarter. The company's PAT was impacted mainly due to tax impact on goodwill as per changes in Finance Bill enacted in 2021.

- HCL won 19 new large deals in Q4FY21 across industry verticals, including Financial Services, Life Sciences and Healthcare, consumer goods and manufacturing. In FY21, HCL signed a total of 58 new large deals led by industries such as Financial Services, Life Sciences and Healthcare, Telecommunication, Manufacturing and Technology.

- New Deal TCV hit an all-time high this quarter at US $ 3.1 B, increasing 49% YoY. For FY21, New Deal TCV are US $ 7.3 B, which is 18% increase over FY20.

- The management has given a revenue growth guidance of double digits in constant currency for FY22. EBIT margin guidance expected between 19% to 21% for FY22. The management declared a total dividend of ₹16 per share for the quarter. With continuity of robust growth across Mode-2 and Mode-3 business (38% of revenue combined), we expect the growth momentum to continue supported by strong products, deal pipeline and ramp up of large deals.

## Bharti Airtel Ltd. (BHARTIARTL)

- Bharti Airtel Limited is a leading global telecommunications company with operations in 18 countries across Asia and Africa. The company ranks amongst the top 3 mobile service providers globally in terms of subscribers. In India, the company's product offerings include 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high speed home broadband, DTH, enterprise services including national & international long distance services to carriers. In the rest of the geographies, it offers 2G, 3G, 4G wireless services and mobile commerce.

- Bharti Airtel Ltd reported consolidated revenue of ₹ 2,57,473 million in Q4 FY21 as compared to ₹ 2,30,187 million in Q4 FY20, a growth of 11.9% YoY. The company saw consistent performance across each segment during the quarter. The company has once again gained revenue market share in each of their business. The company saw growth in customer base and higher data usage.

- The company's EBITDA grew at 28.2% YoY to ₹ 1,25,831 million in Q4 FY21. EBITDA Margin was reported at 48.9% a growth of ~646 basis points YoY. The Profit after Tax (PAT) for Q4 FY 21 came in at ₹ 7,592 million as compared to loss of ₹ (52,370) million during Q4 FY20.

- Mobile Services India reported revenue of ₹ 1,40,798 million in Q4-FY21, a revenue growth of 8.7% YoY. EBIT for Q4 FY21 came in at ₹ 13,507 million, recording an EBIT margin of 9.6%. It registered a growth of 13.3% in customers from 283.7 million during Q4 FY20 to 321.4 million during Q4 FY21. Overall ARPU for Q4 FY21 was ₹ 145 as compared to ₹ 154 during Q4 FY20, a decline of 5.8% YoY impacted by IUC.

- Airtel Business segment revenues for Q4 FY21 was at ₹ 37,021 million, an increase of 9.7% YoY. EBIT for Q4 FY21 has increased by 12.3% to ₹ 11,028 million and the resultant EBIT margin was at 29.8% during Q4 FY 21. During the quarter the company launched Airtel IoT, an integrated and end-to-end platform with the capability to connect and manage billions of devices and applications in a highly secure and seamless fashion on Airtel's 5G ready network.

- Africa revenues during Q4 FY21 came in at $1,058 million in constant currency, grew by 21.7% as compared to $870 million in Q4 FY20 as a result of growth across all regions i.e. Nigeria, East Africa and Francophone. During Q4 FY21, the aggregate customer base was at 118.2 million as compared to 110.6 million in Q4 FY 20, an increase of 6.9% YoY.

# Basket / Portfolio Stocks Rationale

## Aarti Industries Ltd. (AARTIIND)

- Aarti Industries is a leading Indian manufacturer of Speciality Chemicals and Pharmaceuticals with a global footprint. Chemicals manufactured by Aarti are used in the downstream manufacture of pharmaceuticals, agrochemicals, polymers, additives, surfactants, pigments, dyes, etc. The company has 18 manufacturing plants & 200+ products.

- The company reported a revenue of ₹12,094 million during Q4FY21, a growth of 12.4% YoY, driven by volume growth and 75% contribution from value-added products. Despite the annual maintenance shutdown of the acid division at Vapi and the asset revamp-linked maintenance shutdown at Jhagadia, specialty chemicals revenue grew 14.2% y/y, 4.1% q/q, to Rs.11.2bn, supported by demand in regulated markets returning. The EBIT margin rose just 118bps y/y (but q/q was down 205bps) to 18.7% due to higher operating costs because of the plant shutdown.

- In Pharma segment, Operating leverage from growing volumes, focus on regulated markets and value-added products aided the 8.5%/32.5% y/y revenue/EBIT growth to Rs.2.2bn/Rs475m in Q4. Sequentially, the business was affected by the plant shutdown. Management said the growth momentum would continue on the commissioning of API and intermediates capacities in coming quarters coupled with a strong product pipeline.

- The gross margin improved 548bps y/y, though q/q down 28bps, to 53.8%. Despite maintaining a strong 54% gross margin, the EBITDA margin improved just 118bps y/y to 21.5%, hit by higher operating expenses. PAT was up 23.3% y/y, but q/q down 17.6%, to Rs.1.4bn, on the strong operating performance, lower tax expenses and finance costs. Finance cost declined 36% y/y, though q/q up 25%, to Rs.216m, due to lower interest costs and forex-linked re-valuation gains on long-term borrowings.

- The company expects ~Rs35-40bn capex over FY22-FY24 on expanding US FDA-approved capacity at Tarapur, intermediate unit (Vapi), 2nd LT project at Dahej SEZ, 3rd LT project at Jhagadia and NCB expansion, adding capacity for the chlorotoluene value chain, setting up universal multi-purpose plants (UMPP), a new range of value-added and specialty products and custom manufacturing. The company aims to double revenue by FY24 with the same EBITDA margin. It expects the margin to rise to ~25-30%, post-FY24.

# Basket / Portfolio Stocks Rationale

## Nippon Life India Asset Management Ltd. (NAM-INDIA)

- Nippon Life India Asset Management Limited is one of India's largest asset management companies with a total AUM of ₹ 3.55 lakh crores as of March 31, 2021. The Company engages in managing mutual funds including exchange traded funds (ETFs); managed accounts, including portfolio management services, alternative investment funds and pension funds; and offshore funds and advisory mandates.

- NAM added over 9 lacs unique customer's vs 20 lacs for the industry. 14 lacs ETF folios were added in FY21 compared to 97,600 in FY20. It also added 350 new institutional investors. Besides launching a couple of funds in Japan, the company has also entered into LoI with Cathay SITE (Taiwan) to offer bespoke financial products to their respective clients.

- The Company's consolidated total revenue stood at Rs. 14,193.4 million compared to Rs.11,932.1 million - an increase of 19% from the previous year. Revenue from operations - management fees stood at Rs. 1,06,200 million as against Rs 1,20,298 million in previous year and mainly comprised investment management fees (net of Goods & Service tax) from asset management activities of Rs. 1,02,300 million and portfolio management fees (including advisory fees net of service tax) of Rs, 3,900 million as against Rs.1,16,358 million and Rs.3,940 million respectively in previous years.

- The Profit for the period stood at Rs. 6,803.3 million as against Rs. 4,152.5 million respectively in the previous year, an increase of 63.8%. Total Comprehensive Income for the year stood at Rs. 484.93 crore as against Rs. 458.21 crore respectively in the previous year, an increase of 6%.

- The management is focused on improving the equity performance of the company through diversifying and improved risk management. It is looking to raise overseas assets using Nippon Life's global network.

# Basket / Portfolio Stocks Rationale

## Alkem Laboratories Ltd. (ALKEM)

- Alkem Laboratories is one of India's foremost global pharmaceutical company. The Company is engaged in the development, manufacture and marketing of pharmaceuticals with operational footprints across 40+ countries. In India, it has a formidable presence in several therapy segments and consistently features amongst the top ten pharmaceutical companies.

- Alkem's Q4 FY21 revenue grew 7% to Rs21.9bn, helped by growth in trade generics in India. The company had written down inventory of Rs800m. Adjusting for this, the gross margin expanded 428bps to 60.6% while the adj EBITDA margin expanded 214bps to 16.9%.

- Alkem's India business growth of 17.1% was driven by its trade generics division (20-25% of domestic sales) which grew in double digits, while branded growth continued to lag. Acute therapies accounted for 82% of branded sales while the share of chronic therapies was 18%.

- Alkem's US business declined 10.4% in Q4 FY21 to Rs5.4bn due loss of market share in a few products and stocking- driven higher sales last year. The company had launched 12 products in FY21. In Q4 FY21 it made a provision of Rs800m for inventory write-down on products like ibuprofen, as Covid-generated demand has now returned to normal.

- Sales from the RoW market grew 1.2% y/y to Rs1.47bn. Alkem will continue to focus on key regions which will boost growth.

- Its six manufacturing plants have received EIR from US FDA while it is awaiting re-inspection of the Indore plant.

## Vinati Organcis Ltd. (VINATIORGA)

- Vinati Organics Limited has continued to excel in delivering specialty chemicals products for diverse industries. In the process, it is today a leading global manufacturing company of specialty chemicals for some of the largest companies in the world. The company is a niche chemicals manufacturer, working with new processes to develop products at cost effective rates and expanding its market presence. It is today the largest producer of Iso Butyl Benzene and ATBS in the world with a dominant market share.

- Vinati's board approved the Veeral Additives amalgamation with Vinati. The latter manufactures antioxidants (annual capacity: 24,000 tonnes). This acquisition is a forward integration for Vinati as its butyl phenols products will be used to manufacture antioxidants. After the acquisition, Vinati will become the largest and the only integrated manufacturer of such antioxidants in India. Veeral can generate Rs.3bn revenue and an additional Rs.2bn by using butyl phenol from Vinati.

- Revenue grew 14% y/y, 25% q/q, to Rs.2.8bn backed by demand recovery in ATBS and higher utilisation in butyl phenol. The gross margin was 59%, down 47bps y/y, up 424bps q/q following better realizations. Despite the good gross margin, the Q4 EBITDA margin contracted a sharp 601bps y/y, though q/q up 317bps, to 35.4%, due to higher operating expenses. Profit was down 5% y/y to Rs709m, hurt by the lower margin, higher depreciation and lower other income.

- In FY21, Vinati's working capital as percent of sales rose to 54% (vs.~28% a year ago and averaging ~28% in the last decade) on the increase in long-term loan & advances and higher inventory and receivables. Capex was ~Rs725m. Cash-conversion lengthened to ~158 days (vs. 104 the year prior, and ~102 over the last seven years).

- The company guided to ~40-50% revenue growth in FY22 on the pickup in ATBS demand from Jan'21 and the rise in butyl phenol utilisation.

# Basket / Portfolio Stocks Rationale

## Heidelberg Cement India Ltd. (HEIDELBERG)

- Heidelberg Cement entered India in 2006 and has consistently pursued its strategy of growth in developing markets. The Group acquired majority stakes in Mysore Cements and Cochin Cements, as well as the Indorama Cement joint venture, which was converted to a full acquisition in 2008. Following the merger with Indorama Cement, Mysore Cements was renamed HeidelbergCement India Ltd. (HCIL) in 2009. The existing HCIL facilities in Central India were expanded as part of a brownfield project, increasing its capacity from 2 million tonnes per year to 5 million tonnes in 2013.

- With the acquisition of Italcementi in the second half of 2016, the Group has more than doubled its installed capacity making it one of the top 10 players in India. The enlarged India footprint now covers 12 States served by 4 Integrated Cement plants, 4 Grinding Units and a Terminal, having installed capacity of 12.6 Million Tonnes. Its manufacturing locations are at Damoh (State of Madhya Pradesh), Yerraguntla (State of Andhra Pradesh), Sitapuram (State of Telangana), Ammasandra (State of Karnataka), Jhansi (State of Uttar Pradesh), Sholapur (State of Maharashtra), Chennai (State of Tamil Nadu), and Cochin (State of Kerala).

- This has enabled the Group to improve its product offerings over a wider geographic area. The products from its manufacturing units are sold under the brand names “Mycem” and “Zuari”.

- The complete-lockdown-hit low-base quarter aided its Q4 volume growth; rising input costs, however, slashed Heidelberg’s operating performance. Its focus remains on brand positing and increasing the share of premium cement along with reducing the share of grid power. While the Zuari-merger evaluation and clearance of the Gujarat expansion continues, management is exploring expansion opportunities in the Central region.

- On the low base, firm realisations and 15% y/y volume growth, revenue rose 14% to Rs5.8bn. However EBITDA/ton declined 8% y/y to Rs1,066 on input cost pressures, whereas EBITDA grew 5% y/y to Rs1.3bn due to healthy volume growth. A reversal of the Rs541.1m deferred tax liability, Rs148.5m accrued SGST incentive and lower interest cost pushed PAT up 111% y/y to Rs1,400m.

- The company reduced its dependence on grid power to 63% (vs 66% the quarter prior). The coming 5.5MW Narsingarh solar power plant and AFR will enhance the share of green power through savings in costs. While the license and clearance process is ongoing for its Gujarat expansion, the company is exploring expansion opportunities in Central India through mine auctions, etc. It is evaluating the new mining law for the Zuari merger.

# Basket / Portfolio Stocks Rationale

## Nocil Ltd. (NOCIL)

- NOCIL's involvement in the Rubber chemicals business spans over 4 decades. It is one of the few players in this business to offer wide range of rubber chemicals to suit the customer needs. Due to its rich experience and offering a one stop shop to customers, NOCIL is today acknowledged as a dependable supplier of rubber chemicals. Globally it is recognised for its technical capabilities and on this aspect alone, NOCIL enjoys an edge over other players in this business.

- NOCIL today is the Largest Rubber Chemicals Manufacturer in India with the State of the Art Technology for the manufacture of rubber chemicals. Its brands PILFLEX® Antidegradants, PILNOX® Antioxidants, PILCURE® Accelerators, Post Vulcanization Stabilizer and PILGARD® Pre Vulcanization Inhibitor are well recognised in both domestic as well as international markets.

- The growth drivers are positive guidance by global and domestic tyre manufacturers, rising rubber consumption, shifting of supply from China to India, higher exports and better demand globally. Further, the ongoing expansion will help the company address growing demand and improve its market share. It is aiming at an 8-10% market share globally.

- Supported by a good demand recovery in tyres and volume growth, Nocil's Q4 revenue grew 51.4% y/y, 17.3% q/q, to Rs3.2bn, its highest. The gross margin contracted to 44.2% y/y, though sequentially up 71bps to 44.2%. Despite the lower gross margin, the EBITDA margin shrunk just 96bps y/y, though q/q up 251bps, to 16.3%, supported by greater fixed- cost absorption and lower operating expenses. PAT rose a steep 70.7% y/y, 67.3% q/q, to Rs373m aided by the better operating performance and lower tax expenses, though partially affected by lower other income.

- OEM demand is returning after a tired performance in the last couple of years. The duty imposed on tyre imports and shift of demand from China to India would boost demand domestically and globally for NOCIL.

## Disclaimer: