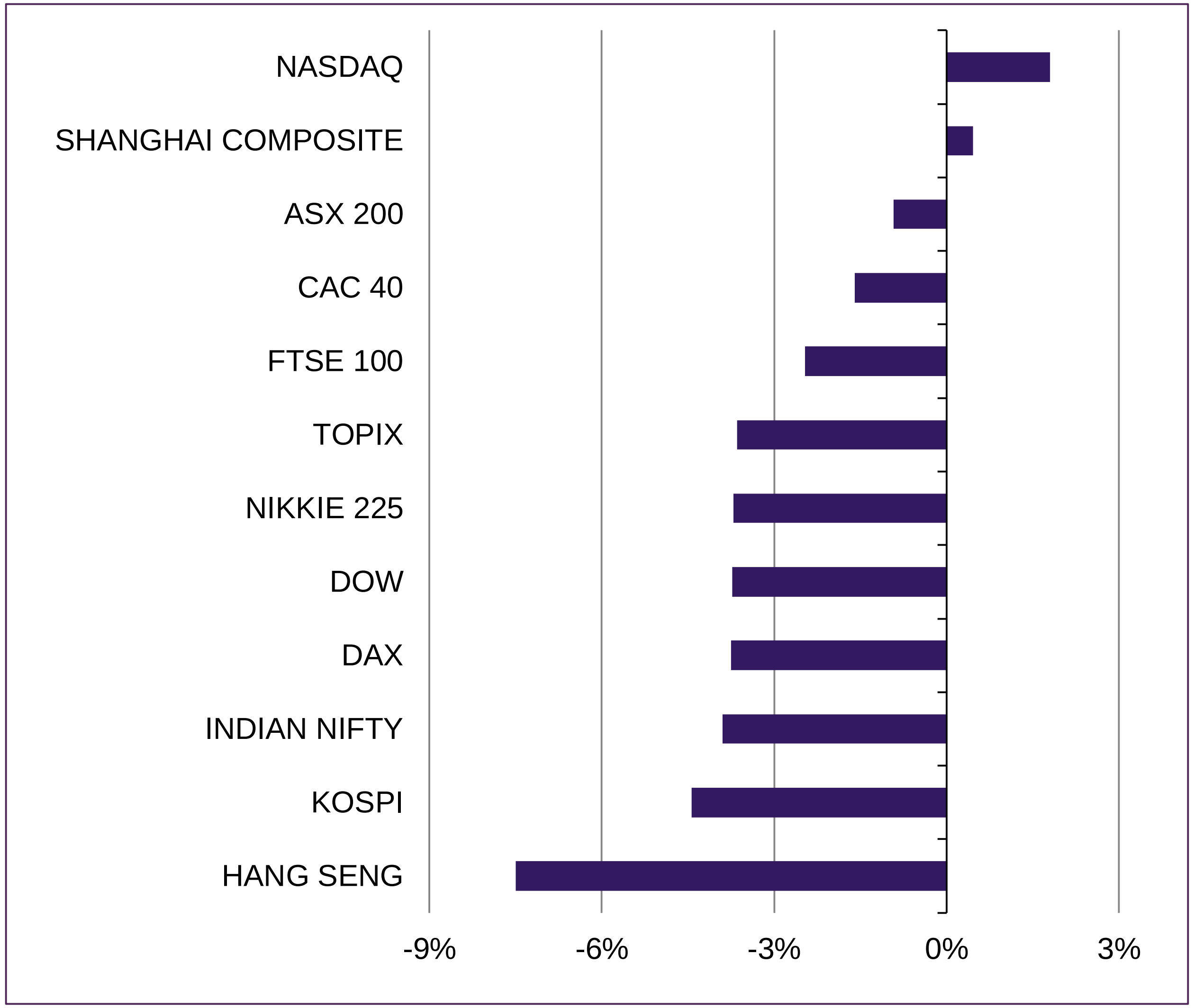
BESPOKE

Advice for a select few

ANAND RATHI
PRIVATE CLIENT GROUP
EQUITY
PCG

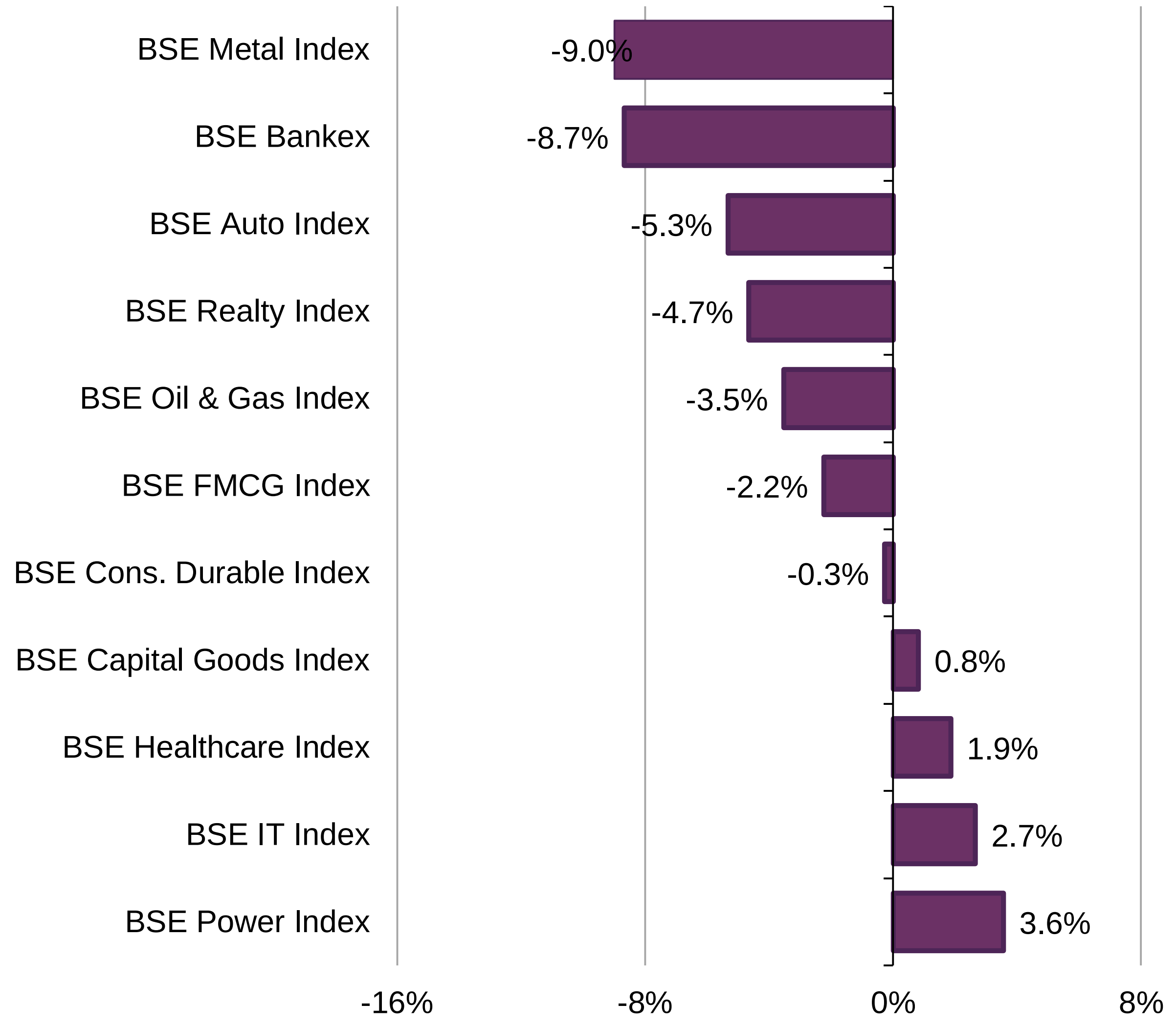
Equity Investing: *Global Markets Update*

Global Markets performance in Nov-21

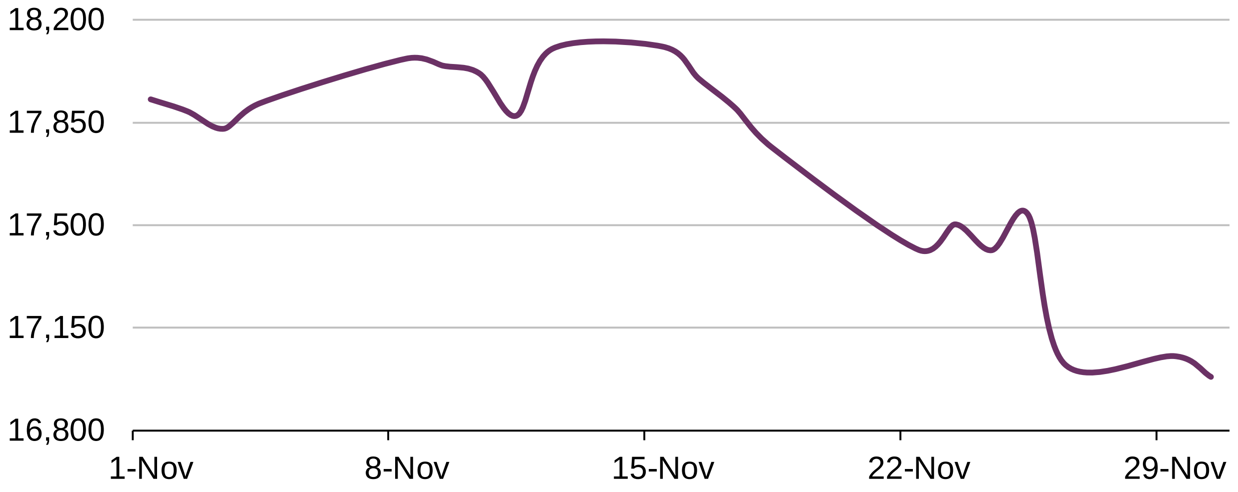


Equity Investing: *Monthly musings*

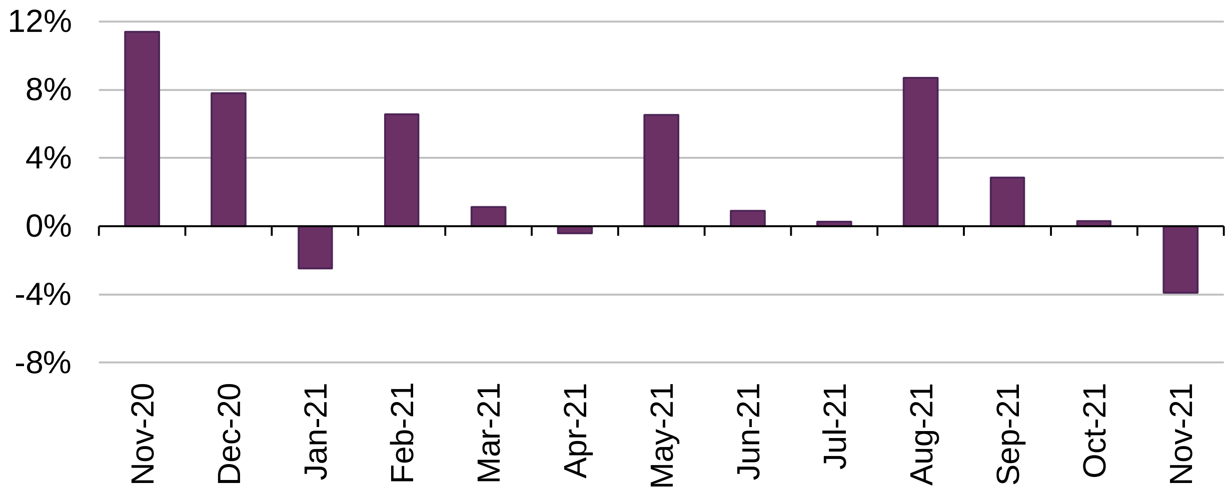
Sector wise performance during the month



NIFTY Performance in Nov 2021

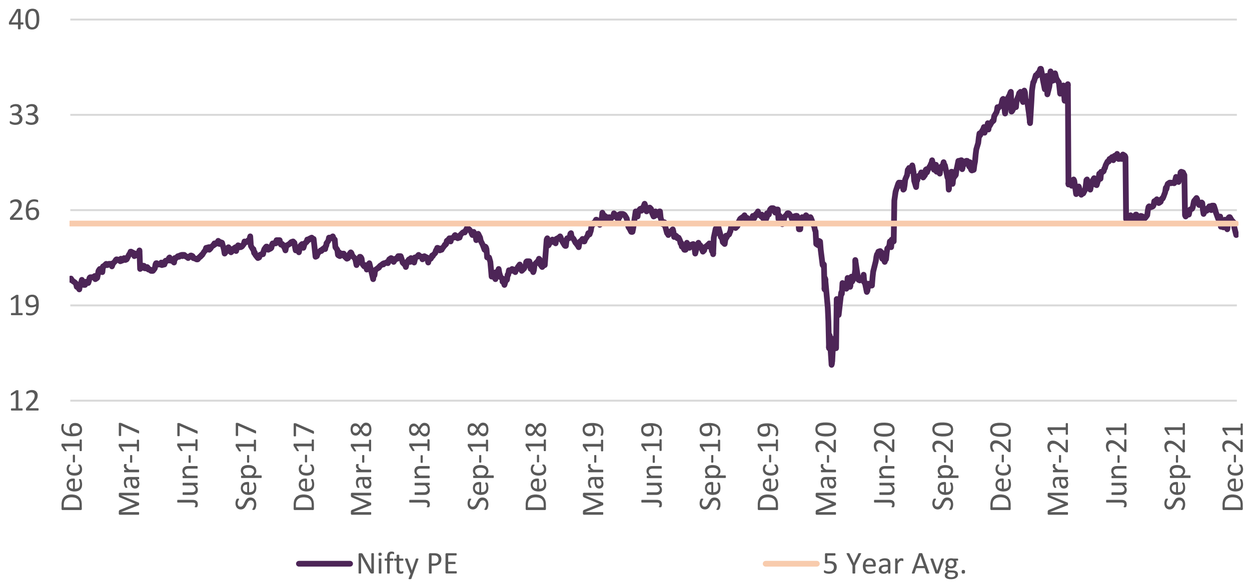


NIFTY monthly performance for trailing 12 months

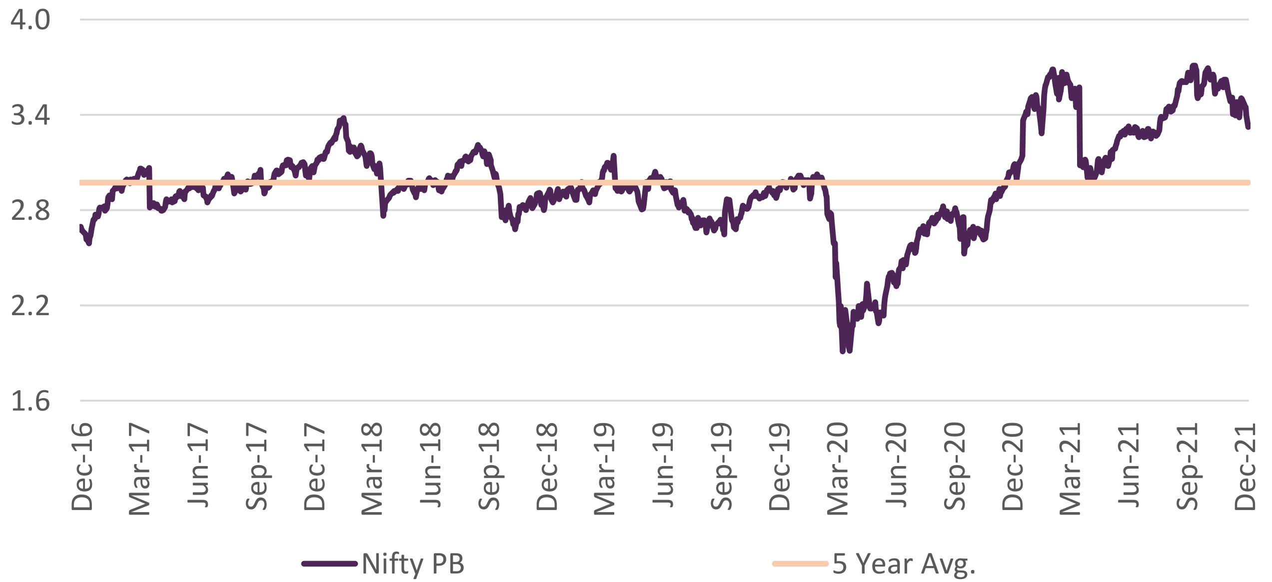


Equity Investing: *Index valuations*

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

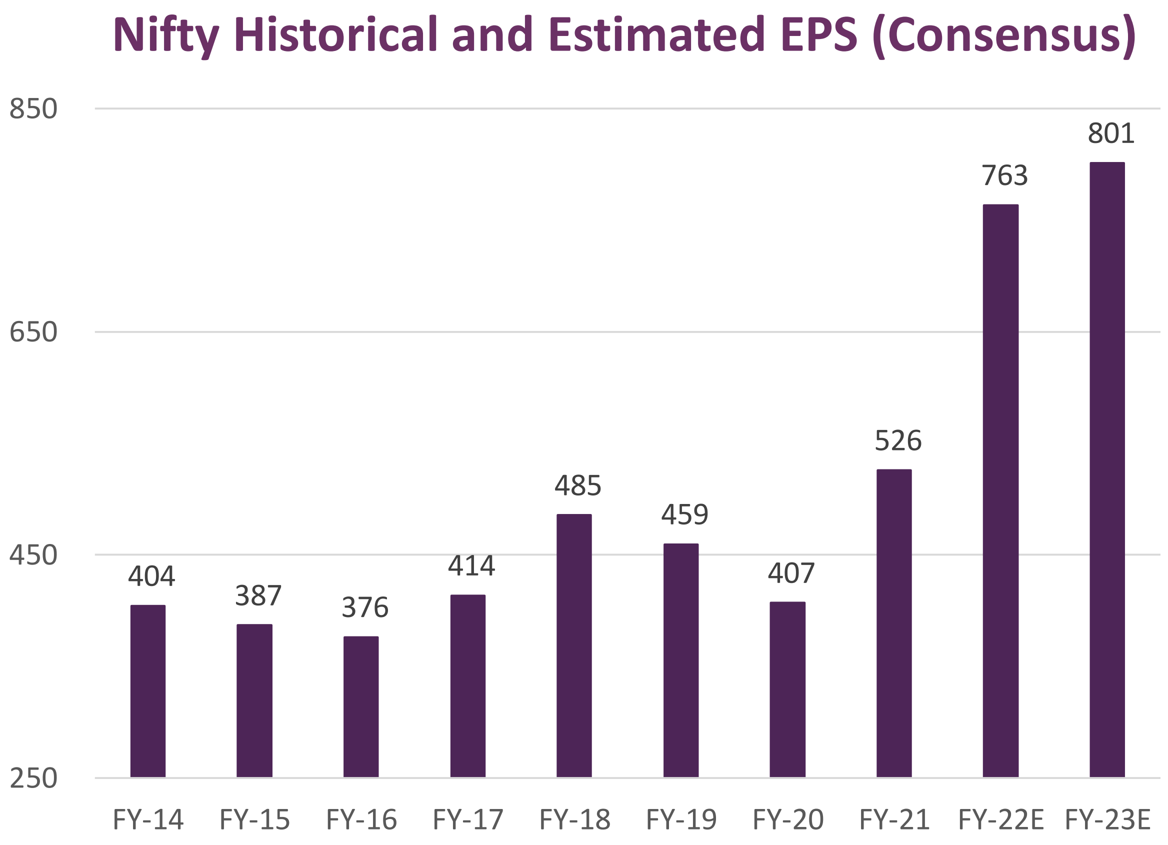


Nifty Trailing 12M P/B & 5 Yr. Avg. P/B



- Currently Nifty50 is trading at around 24.2x its trailing 12 month price to earnings ratio while its five year historical average price to earnings ratio stands at around 25x. A discount of around 3.2% 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 3x. A premium of around 11.7% from its five year historical average.

Equity Investing: *Index valuations contd.*



- Nifty50 earnings are estimated (consensus) to grow at a CAGR of about 23.4% in next two years from FY21 onwards till FY23.

Equity Investing: *Broader Market valuations*

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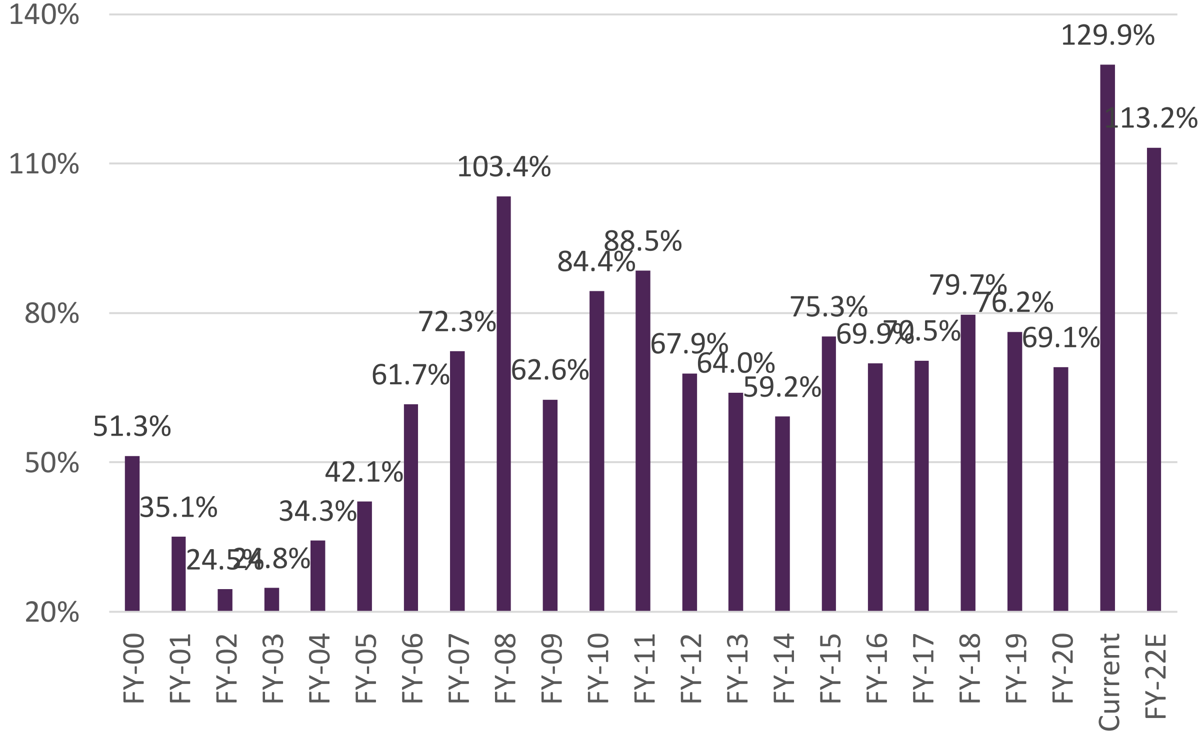
India Market Cap. to GDP Ratio



- Currently India’s listed companies market capitalisation to GDP ratio stands at about 129.9% at month end while it was about 135.1% at the start of the Nov-21 month. The ratio is considered an indicative of overall equity market sentiments and cycles.
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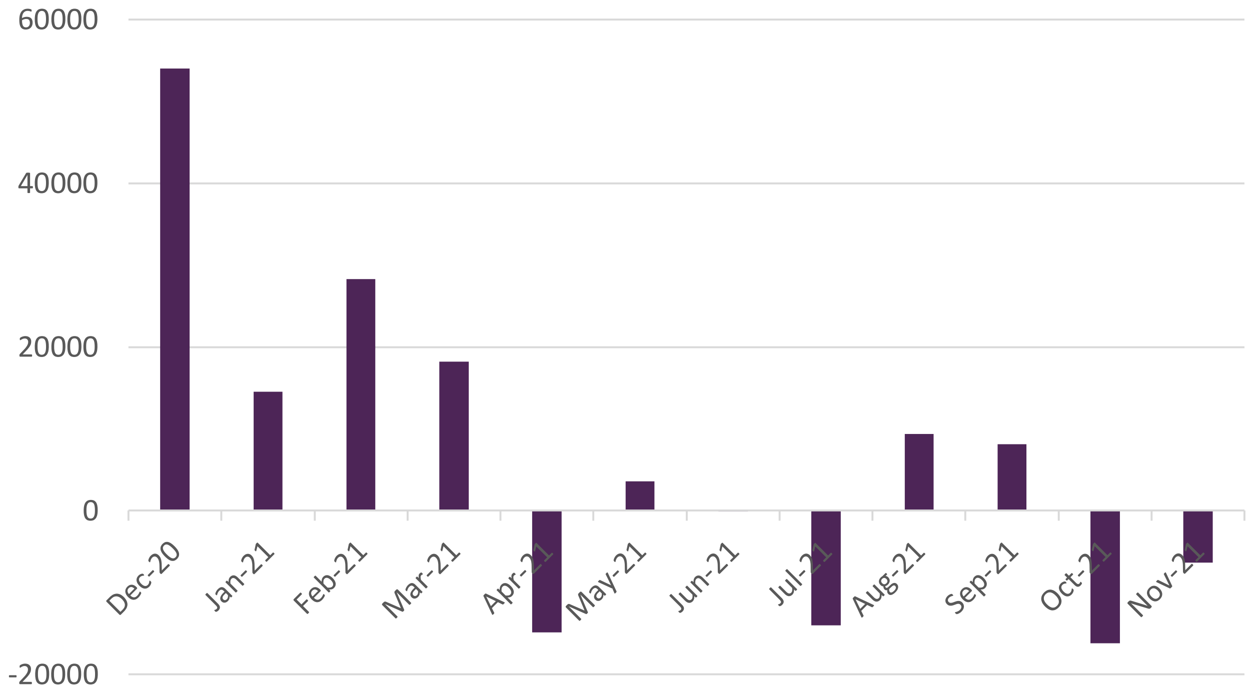
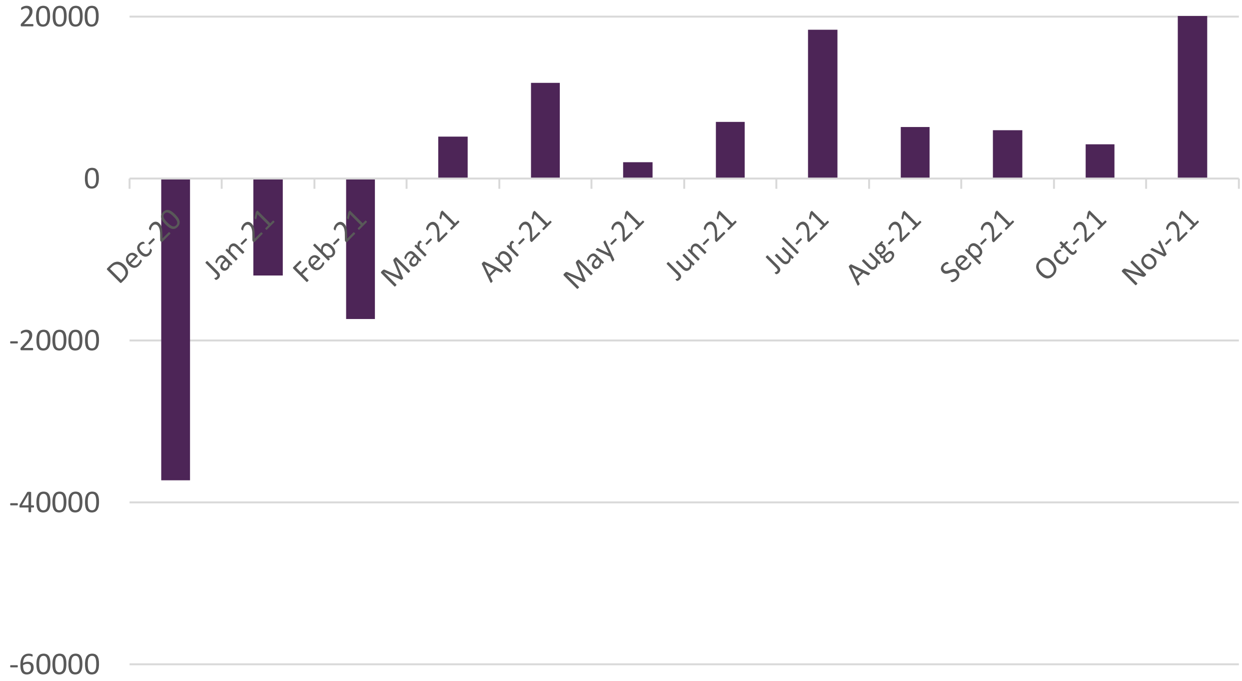
Equity Investing: Big *Money Flow*

FII Monthly Inflows in Equity (₹ Crore)



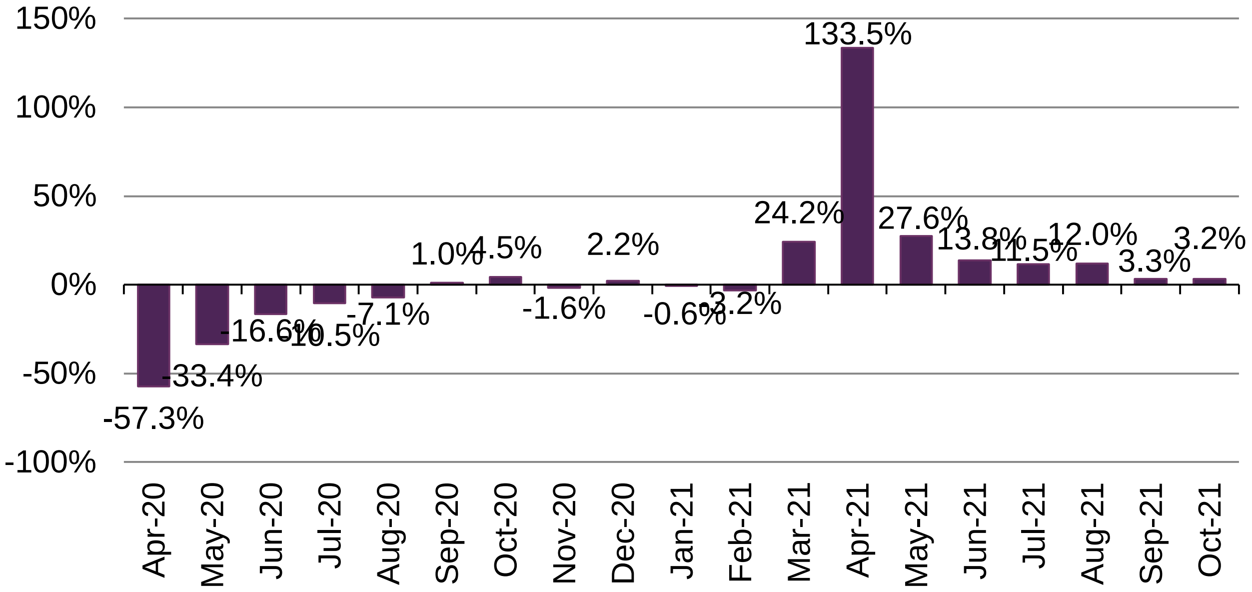
DII Monthly Inflows in Equity (₹ Crore)



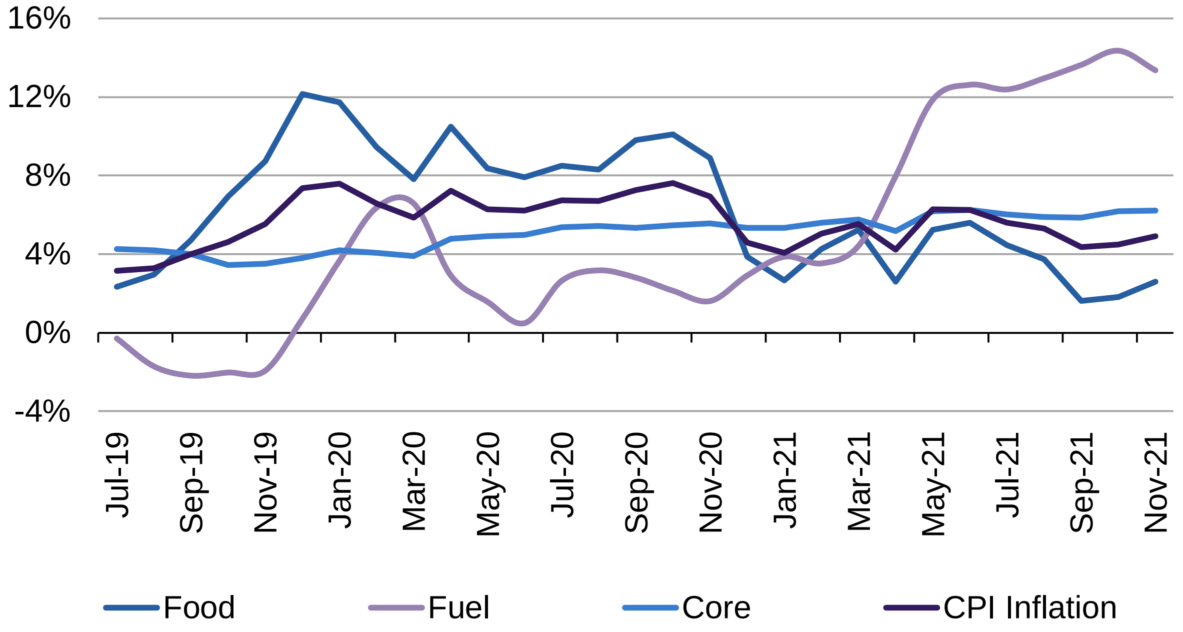
- FII monthly inflows for the month of Nov-21 has seen net outflows of almost ₹6,325 crores which is second consecutive outflow month.
- On the other hand, domestic funds have seen nine consecutive monthly net inflows which stood at around ₹30,538 crores.

Equity Investing: Growth & Inflation

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



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



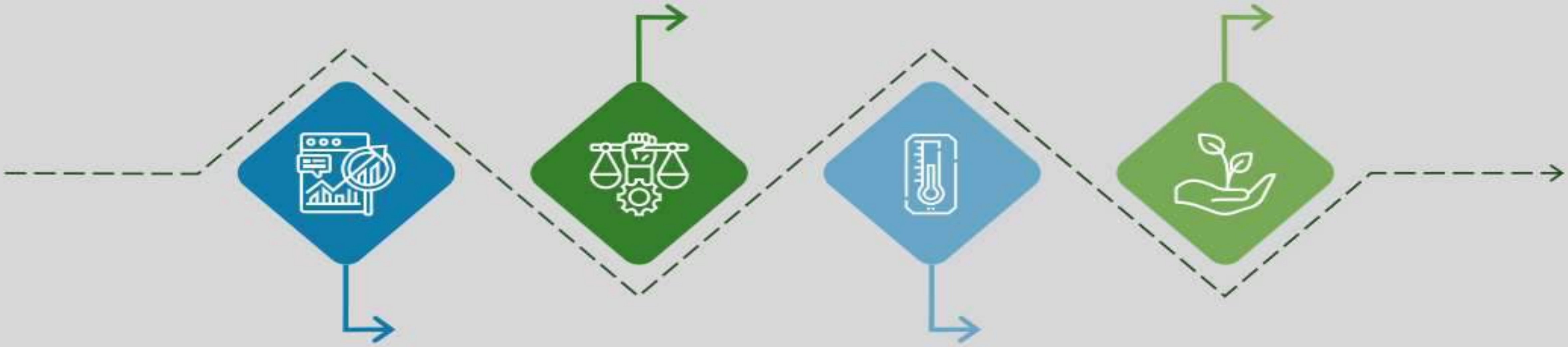
- Index of Industrial Production (IIP) data for the latest month Oct-21 maintained its positive momentum in industrial activity. The index stood at 3.2% for the month.
- Latest inflation data released showed marginal increase in overall inflation with core inflation at 6.2%, CPI at 4.9%. The Food inflation for the Nov-21 month stood at 2.6% while fuel inflation stood at 13.3% for Nov-21 month.

BIG CORRECTION: HOW LIKELY?

Not so much

Fair relative PE valuation

Strong earnings growth continues



Long-term trend favourable

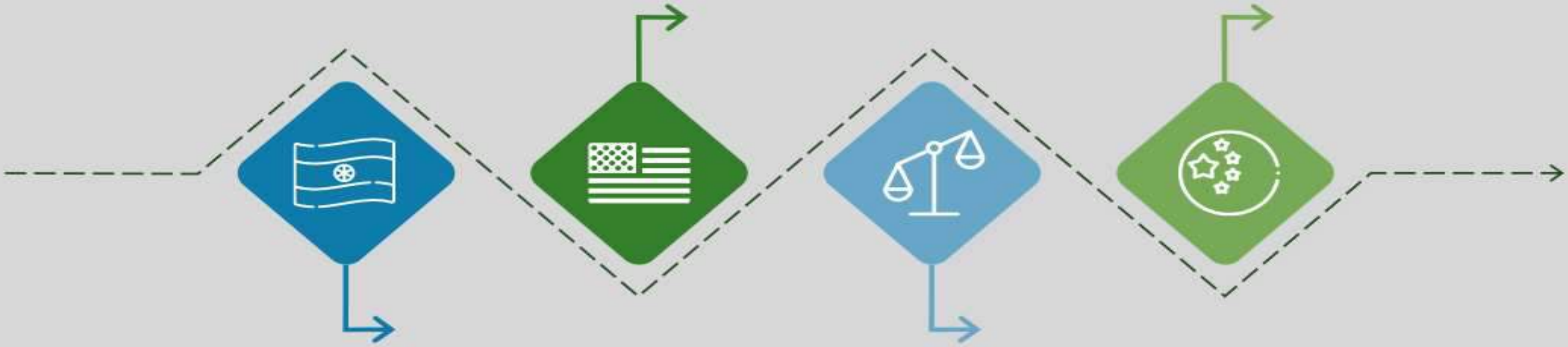
Return expectation need moderation

POLICY RISK: HOW BIG?

Could be a concern

Policy risk elevated in the US

In China too, policy risk high

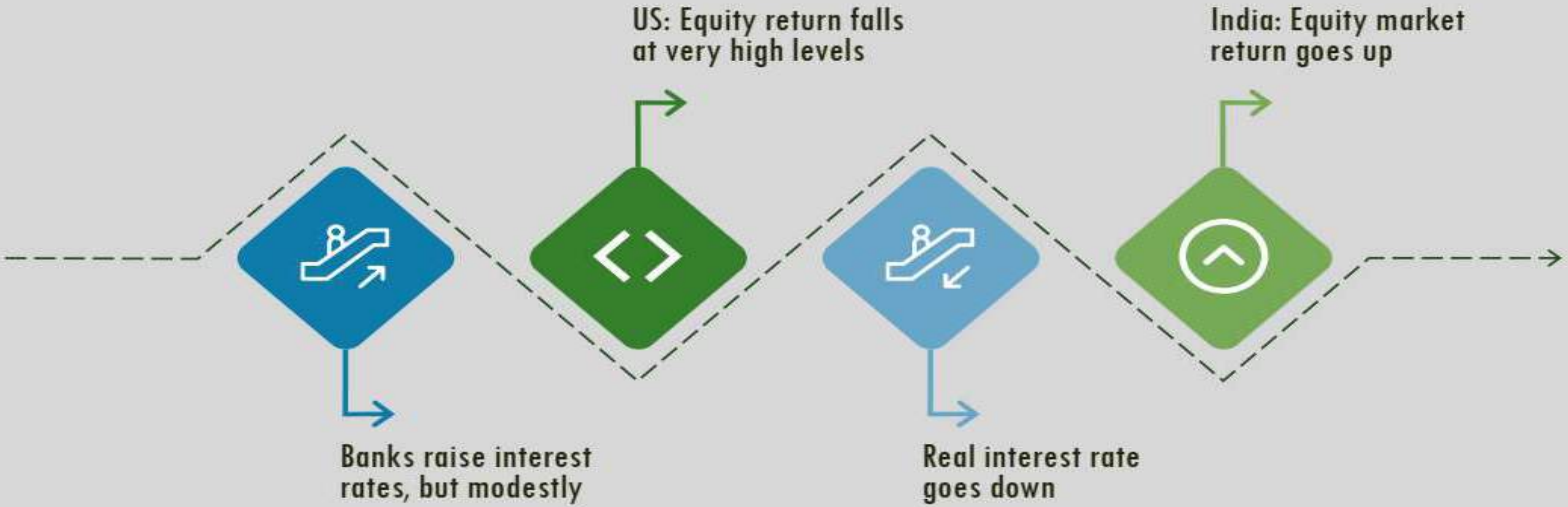


Policy risk relatively low in India

Equity returns not in sync in US and China

INFLATION: IS IT SO IMPORTANT?

Not so much for equities



IS MACRO-EQUITY: IN SYNC?

Yes, in most parts

Most parts of GDP higher vs. pre-Covid

Foreign trade, job market buzzing

Elbow room for more government support

Parts of economy still seriously down

SUMMING UP

- Chance of a large correction in equity market not high
- Risks to the equity market currently mostly global
- The base case for next 12-month equity return around 10%
- The worst for real estate seems over, but return outlook modest

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.

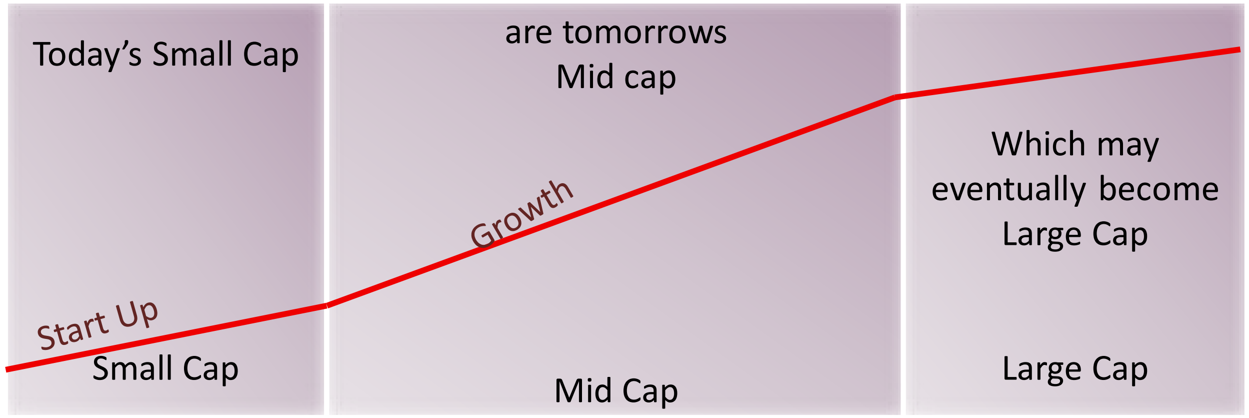
Growth investing is a style of investment strategy focused on capital appreciation. Portfolio Manager invest in companies that exhibit signs of above-average growth, even if the share price appears expensive in terms of metrics such as price-to-earnings or price-to-book ratios.

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

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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

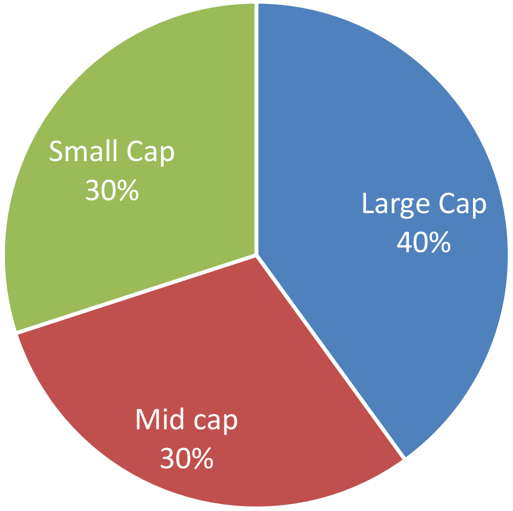
Exposure
1) Single Stock exposure < 10%
2) Single Sector exposure < 30%

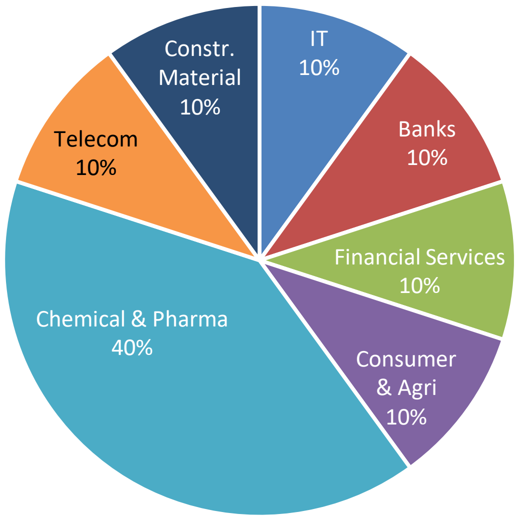
Top Holdings & Allocation

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%

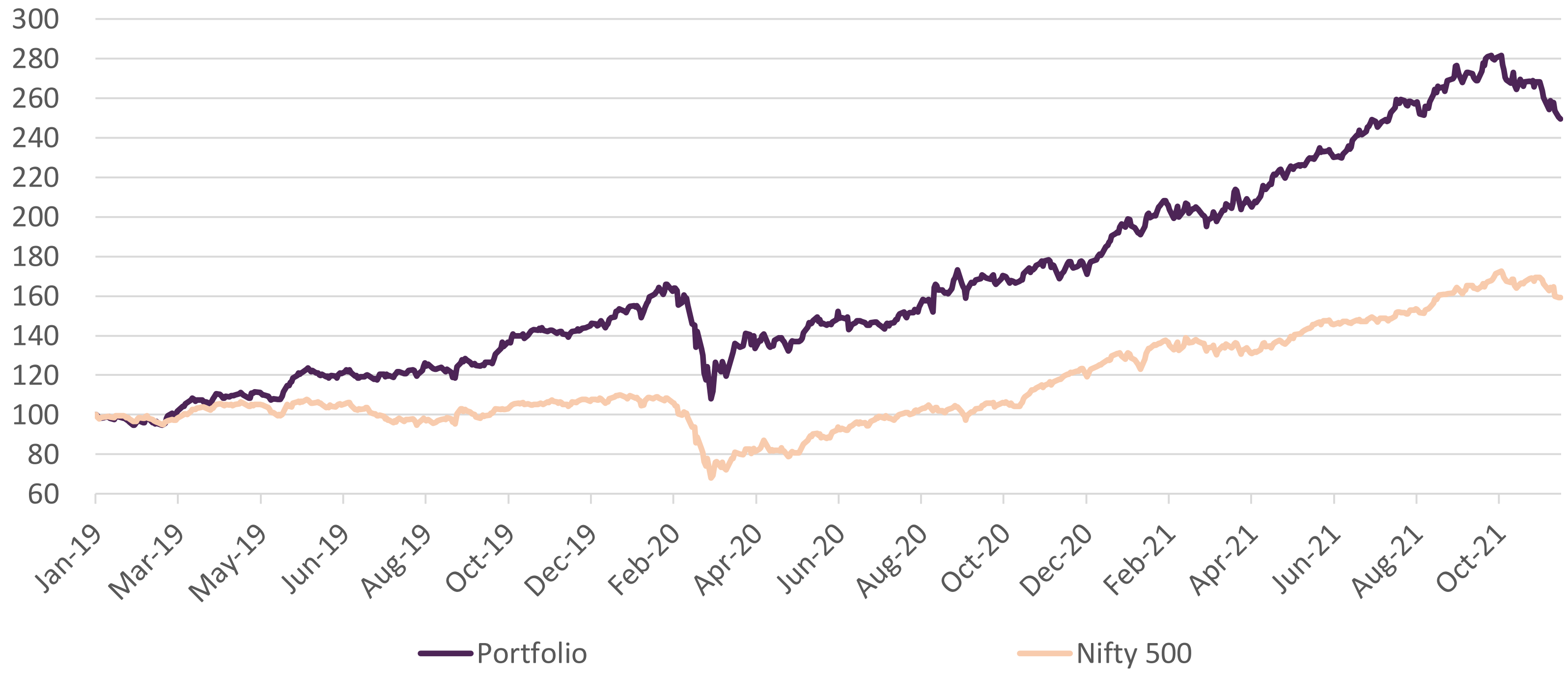
S.No.	Mid Cap	% Weight
1	Vinati Organics Limited	10%
2	Heidelberg Cement India Ltd.	10%
3	NOCIL Limited	10%





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

Basket / Portfolio Performance



Period	Portfolio % Return	Nifty500 % Return
One month	-5.7%	-2.9%
Three months	-5.6%	0.6%
Six months	8.8%	10.8%
One Year	42.1%	36.7%

NOTE: Performance as of 30th Nov 2021.

What to Expect in near term

- **Positives:**
- Overall good results in Q2-FY22 from revenue perspective while margins pressure was seen due to increase in costs, supply chain issues etc. Stable and improving domestic macro indicators for FY22 so far.
- Broadly good Monsoon season
- Good GST data so far
- Sustained domestic support by both GoI and RBI
- Global support to also continue

- **Negatives:**
- Fed taper timeline earlier than expected
- Global uncertainty on security aspects etc.
- Sharp rise in crude oil and global energy dependent commodities
- Inflation expectations taking hold in developed markets.
- 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.

- Gross debt as of Jun’21 stood at ₹251,000 million while net debt stood at ₹215,000 million as of Jun’21. In 1QFY22, UPLL borrowed $250 million in sustainability loans, taking the total sustainability loans to $750 million. Loans were utilized entirely for acquisition loan repayments – acquisition loans currently stand at $1,500 million. Sustainability loans were taken at the rate of LIBOR +30bps.

- UPL Ltd consolidated net sales increased 8.7% YoY to ₹ 85,150 million in Q1FY22. Sales of Agro segment has gone up 8.2% to ₹81,000 million (accounting for 95.2% of total sales). Sales of Non Agro segment has gone up 22.5% to ₹4,150 million (accounting for 4.8% of total sales). The company’s operating profit margin has slumped from 21.8% to 20.8%, leading to 4.1% decline in operating profit to ₹17,740 million. Raw material cost as a % of total sales (net of stock adjustments) decreased from 45.3% to 43.5% while employee cost increased from 11.1% to 12.1% and other expenses rose from 20.2% to 23.6%. Reported PAT grew by 22.9% y/y to ₹6,770 million led by tax benefits, despite UPLL reporting a muted operating performance during the quarter.

- Management guided the revenue growth of ~7–10%, with EBITDA growth at 12–15% and net debt to EBITDA at <2x. The global Agrochemicals market is set to gain from better farm economics on account of firm/rising global agri commodity prices, which would in turn drive agrochemical consumption.

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.

- ICICI Bank Limited has reported a net interest income growth of 25% in its Q2-FY22 standalone results at ₹116,900 million as against ₹93,660 million in Q2-FY21, driven by advances growth of 17% and a net interest margin of 4.00%. Non-Interest Income, excluding treasury income increased by 26% YoY to ₹44,000 million in Q2-FY22.

- Core operating profit (profit before provisions and tax, excluding treasury income) grew by 23% year-on-year to ₹95,180 million in Q2-FY22. Profit after tax grew by 29.6% YoY to ₹55,110 million in the quarter ended Q2-FY22 compared to ₹42,510 million in the quarter ended Q2-FY21.

- Total advances increased by 17% YoY to ₹7,649,370 million as on September 30, 2021 from ₹6,526,080 million as on September 30, 2020. The year-on-year growth in domestic advances was 19% in Q2-FY22. The Bank has continued to leverage its strong retail franchise, resulting in a 20% YoY growth in the retail loan portfolio in Q2-FY22, the retail loan portfolio was 51.6% of total portfolio as on September 30, 2021.

- Total deposits increased by 17% YoY to ₹9,774,490 million at September 30, 2021. Average current account deposits increased by 36% YoY in Q2-FY22. Average savings account deposits increased by 25% YoY in Q2-FY22. The average CASA ratio was 44% in Q2-FY22 & reported a growth of 24% YoY. Total term deposits increased by 12% YoY to ₹5,267,450 million as on September 30, 2021.

- During the quarter, the gross additions to NPAs were ₹55,780 million. Recoveries and upgrades, excluding write-offs, from nonperforming loans were ₹54,80 million in Q2-FY22. The net NPA ratio in September 30, 2021 is at 0.99% from 1.16% in June 30, 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 good results for the quarter under review. Revenue from operations improved by 11.1% year-on-year to ₹206,550 million on consolidated basis. In constant currency (CC) terms the revenue grew by 10.5% YoY. The company reported healthy revenue growth led by better performance across all regions - Americas, Europe & RoW.

- Mode-2 business grew by 36.3% YoY in constant currency terms. Segment wise – IT business services and Engineering services led growth during for the quarter by 13.2% & 12.7% YoY respectively. All verticals led growth – Financial Services, Manufacturing, Technology, Retail, Telecommunications, Life sciences and Public Services grew by 6.3%, 11.9%, 10.8%, 3.6%,13.4%, 20.1% and 8.8% YoY respectively.

- On profitability front, the EBITDA from operations for the quarter decreased by 1.7% year-on-year at ₹50,320 million with a margin of 24.4%. The company achieved the reported PAT of ₹32,630 million, an increase of 3.7% year-on-year with a net margin of 15.8% translating into EPS of ₹12.01 per share for the quarter.

- HCL won 14 new large deals in Q2-FY22 wins worth $2.2 billion registering growth of 38% YoY. The new large deal wins were from across all categories, reflecting strong demand and relevance of offerings across all client groups. The company's net employee addition hit an all-time high of 11,135 this quarter. Its robust pipeline and continued strong employee ramp up augurs well for its business momentum going forward

- The management declared an interim dividend of ₹10 per share for the quarter. The Board approved a Payout policy that entails investor payouts of not less than 75% of Net Income cumulatively over 5 years FY 22 to FY 26.

- 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.

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 Limited (BHARTIARTL) has reported consolidated revenue of Rs.2,83,264 million in Q2-FY22 as against Rs.2,50,604 million in Q2-FY21, a growth of 13%. On comparable basis the company’s revenues grew 18.8% YoY during the quarter backed by strong performance across the businesses.

- On profitability front, the company’s consolidated EBITDA margin stood at 48.8% at Rs.138 billion in Q2-FY22 as against 44.2% at Rs.110 billion in same quarter previous year, an improvement of 458 basis points. The consolidated profit after tax (PAT) margin for the company stood 4.3% at Rs.12.3 billion as against a loss of Rs.5.8 billion in same quarter previous year.

- In its mobile business the company continues to gain a strong share of the 4G customers in the market. 4G data customers for the company increased by 26.1% YoY to 192.5 Mn. Over the last four quarters, the company has added 39.9 Mn 4G customers to its network. The company’s ARPU stands at 153 for the quarter, average data usage per data customer at 18.6 GBs/month and voice usage per customer at 1,053 mins /month.

- Recently the company has also rebalanced tarrifs of its mobile business and has undergone across the board increase in plan prices by an average of about 20%. Along with this the company has also communicated its medium to long term stance of growing mobile business ARPUs to Rs.200 initially and further to Rs.300 in due course which should be positive for the company.

- We continue to believe that strong momentum in revenue backed by continued growth in customer additions and improved margins support the growth prospects for the company in long term. Airtel’s strong brand presence coupled with its executional capabilities will help drive the top line growth and healthy margins.

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.

- Aarti's Q2 revenue grew 32% y/y, 18% q/q, to Rs15.5bn supported by volume growth, higher prices and the return of discretionary demand to pre-Covid'19 levels. Specialty chemicals' revenue grew 36% y/y, 21% q/q, to Rs14.8bn, driven by volume growth and realisations. Pharmaceuticals grew 16% y/y, (though q/q were flat) to Rs2.8bn, supported by greater volumes and better utilisation.

- The EBITDA/gross margin contracted to 20% (down 368bps y/y, 665bps q/q) and 47% (51% a year ago, 54% the previous quarter) due to a delay in passing on costs. The company has guided to maintaining the 18-20% pharma EBIT margin (14.8% the quarter prior), supported by capacities commissioned in H2.

- In H1 Aarti incurred Rs6.2bn capex, of the guided-to Rs12bn-15bn for FY22. It expects ~Rs25bn-50bn capex in the next three years to expand the US FDA-approved capacity at Tarapur, the intermediates unit (Vapi), a second and third LT contract at the Dahej SEZ and at Jhagadia, the 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. It is adding chloro-toluene and downstream products for revenue growth. These products will be import substitutes and support export. It aims at Rs90bn revenue by FY24 (from Rs45bn in FY21).

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.

- For 2QFY22, Total Income was Rs. 425 crore (US$ 57 million) - an increase of 32%. Operating Profit up by 46% YoY to Rs. 186 crore (US$ 25 million) and Profit after Tax was Rs. 214 crore (US$ 29 million) - an increase of 47%.

- As on September 30, 2021, NAM India's assets under management was Rs. 4,00,831 crore (US$ 54.2 billion). NIMF's overall AUM market share rose to 7.33% - an increase of 21 basis points in H1FY22.The increase has been driven by improved fund performance, robust risk management, and wide distribution network.

- For the quarter, NIMF's average assets under management was Rs. 2,65,459 crore (US$ 35.9 billion) - an increase of 33%. For 2QFY22, share of Equity Assets rose to 43% of NIMF's AUM as against 39% for the quarter ended September 30, 2020. NIMF has one of the largest retail assets in the Industry, at Rs. 77,657 crore (US$ 10.5 billion). Retail assets contributed 28% to NIMF's AUM.

- During the quarter, NIMF's AUM of Rs. 48,843 crore (US$ 6.6 billion) from 'Beyond the Top 30 cities' category. This segment forms 18% of NIMF's AUM vis-à-vis 16% for the Industry.

- During the quarter, digital purchase transactions rose to over 7 lakh - an increase of 55% as against the quarter ended September 30, 2020. Digital channels contributed 53% to total new purchase transactions.

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 business in Q1 FY22 grew a robust 65.3% y/y to Rs19.09bn. Sequentially, too, recovery has been significant (up 29.6%). The healthy growth in its acute business drove the revenue. The chronic category saw good growth, with therapies such as cardiac/ diabetes seeing an upswing. Trade generics growth was unhampered. The company aims at doubling revenues from its chronic therapies in the next 3-4 years.

- The US business slipped 9.3% to Rs6.04bn mainly due to the loss of market share and price erosion. The company filed two ANDA and received five approvals from the US FDA in the quarter.

- Double-digit launches are expected in FY22 however loss of market share and price erosion cut US growth. Alkem launched gDuexis in the US, it has six months exclusivity for this product. A couple of more such products will be launched in FY22-23.

- Sales of the RoW market grew 56.4% y/y to Rs1.86bn. Alkem will continue to focus on key regions, which would boost growth.

Basket / Portfolio Stocks Rationale

Vinati Organcis Ltd. (VINATIORGA)

ANANDRATHI PRIVATE CLIENT GROUP EQUITY

- 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.

- To forward integrate, Vinati's Board approved the amalgamation of Veeral Additives Pvt. Ltd. with Vinati Organics. On this acquisition, butyl phenols will be the key raw materials to manufacture antioxidants. Vinati will be the largest and only integrated manufacturer of such antioxidants in India. With the acquisition, Vinati will be adding a new revenue stream, specialty chemicals, which have good growth potential domestically and globally. Growth would be driven by greater consumption of various plastics such as LDPE, LLDPE and PP, etc. Of the available 40,000 tonnes of butyl phenol capacity, ~45% will be used to manufacture antioxidants. The scheme of amalgamation is subject to approval by shareholders and the NCLT. The company expects to receive all approvals by Jan'22 and revenue contribution would start from Q1FY23.

- ATBS (50% contribution to revenue) volumes in FY21 were hit by the pandemic and the overall global slowdown. Demand for ATBS picked up in FY22 across regions and user industries. Our positive bias for the company continues and we expect revenue/EBITDA/PAT to clock 39%/34%/33% CAGRs over FY21-24 on the strong demand outlook for ATBS, greater utilisation of butyl phenol and the Veeral amalgamation.

- Strong demand in ATBS (low base) and more utilisation of butyl phenol helped Vinati achieve 70.5% y/y revenue growth to Rs3.7bn. Sequentially it was down 3% due to flooding at the Mahad plant. Revenue from butyl phenols in H1 was Rs800m. Vinati recorded the highest sales of ATBS in Q2. Demand for IBB was quite slow as offtake was high in FY21, resulting in higher stocks with customers.

- On better pricing and demand, Vinati reported strong margins (37-40%) over FY19-21. In Q2 FY22, it reported a 27% EBITDA margin (26.3% in Q1 FY22) due to higher raw-material prices and operating expenses. Management guided to a ~30% EBITDA margin in FY22 (vs ~32-33% for Q1 FY22).

- Management guided to ~50% and ~30% revenue growth in FY22 and FY23 led by pick up in butyl phenols, antioxidants and ATBS utilisations. The amalgamation with Veeral is expected to be complete in the next five months, with revenue from Q1 FY23. Vinati expects customized synthesis products (IB, HP-MTBE and IB derivatives) to contribute ~Rs1bn in FY22.

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”.

- Higher input costs and flat realisation squeezed the operating performance; however, firm volume growth pushed up revenue 11% y/y though EBITDA fell 12.5% y/y. Demand commentary is positive and cost pressure would to be passed on through price hikes. The net cash B/S and rising green energy are positives. With no growth capex plans, volume growth will be key to watch along with costs passed on.

- The coming elections, greater thrust on infra activities and a good monsoon are expected boost cement demand 10-12% in FY22 and 10% in FY23, per management. Q2 cement volumes grew 11% y/y on a low base and capacity ramp-up. With stable demand-supply dynamics, the central region will be attractive to non-traditional manufacturers (whose share grew to 35% (8% in the last two years). We expect 8%/10% y/y volume/revenue CAGRs over FY21-24.

- High costs and non-availability of coal/flyash would lead to Rs400/ton higher costs, which the company expects to pass on through price hikes. Cement prices in Oct’21 have risen by ~Rs25 a bag and are expected to rise further till Dec’21 in phases to cover the full impact of costs. EBITDA declined 12.5% y/y to Rs1bn; EBITDA/ton by 21% y/y to Rs887 on higher input costs, where realisation/ ton was flat y/y on the high base. We expect a 7% EBITDA CAGR over FY21-24.

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.

- Management talked of attaining ~10%/~45% volume/revenue growth in FY22. It is expecting volatility in input prices. We expect revenue/EBITDA/PAT to clock 38%/52%/56% CAGRs over FY21-24 considering rising rubber consumption, more exports and mounting demand as major tyre companies are expanding capacities and due to the shift in supplies from China to India.

- Backed by volume growth (up 35% y/y, 5% q/q) and better pricing, Nocil's Q2 revenue grew 69% y/y, 9% q/q, to Rs3.7bn, its highest. The recent disruptions in China (power shortages) and higher ocean freight hurt the global supply chain, leading to the unprecedented rise in commodity prices. Price fluctuations are expected to continue in Q3.

- Nocil's market share has improved in the last six months. It is focusing on exports, strengthening operations by diversifying, with much R&D and brand building. It expects to raise its share of exports to 40% (of total sales) in the next 3-4 years, from ~35% now. It completed its phase II (capex Rs3bn) in Mar'21 and is now not looking at capex in short term. It will focus on volume growth and market-share gains.

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