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RESEARCH &RANKING™

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WHAT CAUGHT OUR ATTENTION THIS MONTH!!!

Q2FY22: A TALE OF 2 R's - RECOVERY & RAW MATERIAL LED MARGIN PRESSURE

Q2FY22 earnings season has almost come to an end and overall results were above expectations within the NSE 200 universe with 86 beats vs 48 misses. Several metrics contributed to better than expected growth. The companies benefitted from the strong revenue growth in the technology sector, higher commodity prices & volume growth in the energy, metal sectors, and also opening up of the economy. Margins of domestic consumption sectors was impacted due to rise in input cost. Within financials, steady recovery in loan growth and improved asset quality of most private lenders was the hallmark of the quarter.

Non-Financials (Rs bn)	Sales			EBITDA			PAT		
	Q2FY21	Q2FY22	YoY	Q2FY21	Q2FY22	YoY	Q2FY21	Q2FY22	YoY
Nifty	4,159	5,505	32%	809	1,015	25%	366	543	48%
Midcap 100	655	819	25%	139	164	18%	38	55	44%
Nifty 200	5,674	7,513	32%	1,098	1,390	27%	473	713	51%

Demand recovery leads to strong revenue growth: Demand trend in terms of revenue growth within the NSE200 universe for non-financial companies improved at 32% YoY driven by cyclicals (metals, oil & gas, discretionary consumption, logistics, paints, chemicals etc). Within financials, better than expected quality of assets for banks as well as relatively robust topline growth for key financial services players boosted earnings beat. Indian IT services delivered one of its best-ever quarterly performances besides, stable deal wins and the upbeat commentary on overall tech spending. The performance of OMCs (oil marketing companies) was driven by a better-than-expected performance as sales volume witnessed a demand recovery post the second wave and higher GRMs. Pricing power was witnessed across sectors such as cement, steel, paints, building material, FMCG and auto, which is expected to continue into Q3FY22.

Inflation concerns take a hit on margin- EBITDA margin for Nifty 200 companies contracted to 18.5% in Q2FY22 vs 19.4% last year as impact of commodity price inflation on margins was visible across industries while IT services' margins were impacted by wage inflation. The current inflationary condition is a result of faster than expected demand recovery, supply constraints and signs of pricing power of manufacturers .The EBITDA margins of domestic consumption sectors such as automobiles, consumer staples and consumer discretionary fell sharply given steep increase in most input prices. Companies could not take commensurate price increases in one quarter alone given the magnitude of cost increases.

Majority companies showed strong PAT growth: The majority of the companies largely delivered on the earnings front except for Auto sector, Consumer staples and discretionary, which was heavily impacted by high raw material inflation and operating deleverage. Banks reported strong YOY increase in net income due to a sharp YOY decline in loan-loss provisions. Construction materials sector reported strong growth in net income, led by higher realization.

Strong performance expected to flow into Q3FY22: Early high frequency indicators for Q3FY22 are strong and indicate sustainability in demand (Oct'21 manufacturing and services PMI strong at 55.9 and 58.4, respectively, GST collections at Rs1.3trn, merchandise exports growth of 42.3% YoY and imports growth of 62.5% YoY).

LESSONS FROM RECENT TECH PLATFORM IPOs

An IPO debut is like appearing for world championship sports. When a sportsperson is participating in games like Olympics or Commonwealth, he/she has to be in best shape in terms of strength, flexibility, endurance to improve their chances of winning. Likewise, when a company is going to debut in an IPO, they have to be in best shape in terms of financials, operations, good governance and so on in order to be a winner on the bourses.

Paytm policybazaar NYKAA zomato

Paytm, a decade old startup company had all the makings of a blockbuster IPO. After attracting several marquee investors globally, from Berkshire Hathaway to Softbank, the 2016 demonetization programme appeared to have given the company a boost and it seemed to be a clear winner- A poster boy of the fintech revolution in India.

But finally, when the IPO closed, Paytm received a lukewarm response. The shares for One97 Communications i.e. Paytm's parent company were oversubscribed by only 1.9 times. In stark contrast, beauty e-tailer Nykaa's IPO earlier this month was oversubscribed 82 times while Zomato IPO was oversubscribed by 38 times. While PolicyBazaar IPO wasn't as hit as Nykaa's, it fared better than Paytm with a subscription of 17 times. Paytm IPO failed to attract domestic investors as nearly 80% bids came from overseas investors. So, what went wrong? Turns out that Paytm's mounting losses, the expectation of not delivering profits anytime soon, stiff competition became a sour grape to swallow for all category of investors. Lets dig deep into this.

Comparison of Subscription Details

Category	Paytm	policybazaar	NYKAA	zomato
QIB	2.8x	24.9x	91.8x	51.8x
NII	0.2x	7.8x	112.0x	32.9x
RII	1.7x	3.3x	12.2x	7.5x
Total	**1.9x**	**16.6x**	**81.8x**	**38.3x**

UNFOLDING THE REASONS BEHIND THE MIX RESPONSE

A. CLARITY OF ROAD TO PROFITABILITY

Loss making: For any investment in a company/business, the basic motive is generating returns. When companies are profitable, it is growth in profits and returns to shareholders, and the growth in both of them and extent of those returns in future, which leads to its valuations being higher or lower. Paytm in its 11th year of operation is still not making profit and that has made investors a bit cautious about its future viability.

Road to profitability unclear: Both founders Falguni Nayar of Nykaa and Vijay Shekhar of Paytm had said that they would not take the company public until it turned profitable. Now when Nykaa is profitable, Paytm's founder is still uncertain about future profitability of the company. Hence, without a timeline provided, investors don't know when they will be able to exit out of it.

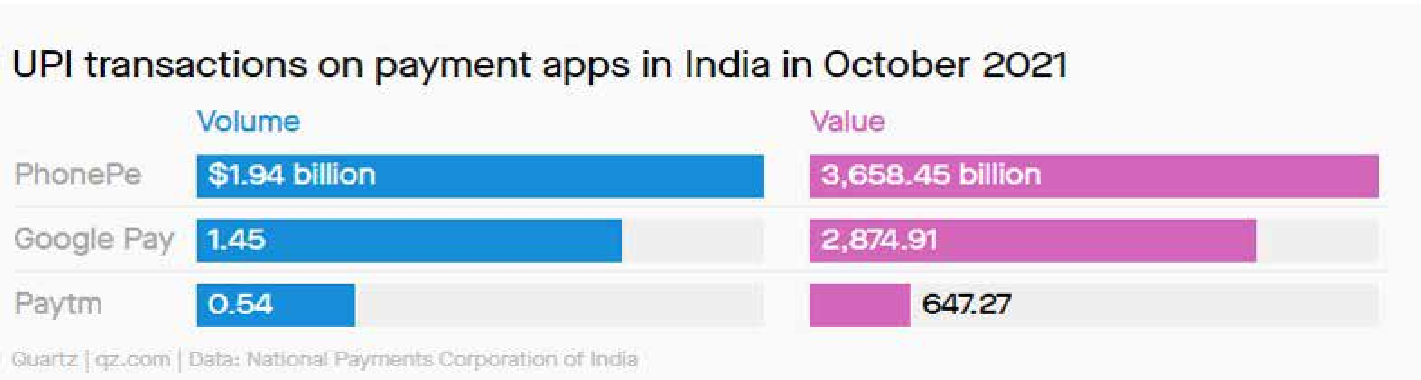
Revenue (Rs Cr)	Paytm	policybazaar	NYKAA	zomato
FY19	3,580	492	1,111	1,313
FY20	3,541	771	1,768	2,605
FY21	3,187	887	2,441	1,994
Q1FY22 (Annualised)	3,563	951	3,268	3,376

PAT (Rs Cr)	Paytm	policybazaar	NYKAA	zomato
FY19	(4,231)	(347)	(25)	(965)
FY20	(2,942)	(304)	(17)	(2,367)
FY21	(1,701)	(150)	62	(813)

B. STIFF COMPETITION IN FINTECH SEGMENT

Red ocean market in the digital money space: Nowadays there are tons of Fintech companies providing similar service of pocket wallet business model with hardly any entry barrier. Paytm has struggled with stiff competition, especially after India launched the Unified Payments Interface (UPI) in 2016. Today, whether consumers are ordering food online, retail shopping, cab booking, they all have their own wallet business model to keep consumer engaged, and all of them have the same customer acquisition style, viz. to give cashbacks for first few transactions

Challenges ahead: The most uphill task for wallet companies including Paytm is retaining their consumers since by now after demonetization, most of their target consumer already have signed up with several mobile wallets. Other specialized online apps have started their wallet, e.g., Ola Post-paid, Amazon Wallet, Flipkart's PhonePe, Whatsapp has become a major competitor to Paytm, MobiKwik, Freecharge, etc. On the other hand, Nykaa is at the top of its game. None of its direct competitors come close to its size and they're nowhere near stock market debuts.



C. HIT BY WRONG TIMING

Over-shadowed by recent IPOs : By the time Paytm IPO debuted, Zomato and Nykaa already set the bar high. Zomato launched its IPO on 14 July 21 and received a stupendous response from retail and institutional investors. Like Zomato, the investors of Nykaa received 100% listing gain. The timing of the IPO just after a successful listing of Nykaa and Zomato having strong business models, made it difficult for Paytm to standup to those benchmarks. The underwhelming response of Paytm also impacted Policybazaar which got listed on 15th November 2021 and couldn't replicate the excitement received by Zomato and Nykaa on the first day of listing and rose only 23% on the day of listing. The size of the IPO of Paytm at Rs180bn, twice that of other recent fintech IPOs also had a role to play.

Chinese ownership casts dark clouds on Paytm future: The decade-old startup waited a little too long to list, and failed to live up to the initial hype which also acted as a deterrent. Instead of creating the buzz around the Paytm IPO for fundraising and value unlocking to true market assessment, Paytm's IPO was probably seen as early investors dumping their stakes to realize large sized returns. Furthermore, Paytm's backing of China's Ant Group, Alibaba and SAIF partners (Hongkong based private firm) which collectively own more than 50% stake even as founder Vijay Sharma owning ~14% when juxtaposed against Nykaa promoter's stake of 53% was a stark contrast.

D. LOFTY VALUATIONS

High Valuations amid complex business model: The post IPO market cap of Paytm at around Rs 1,35,000 Cr appeared way too high for a fintech company with a much smaller base of physical assets, Intellectual Property Rights or financial assets. The IPO was valued at 50x times FY21 price to sales multiple, higher than international peers (Paypal at 10x , Square 7x) while Nykaa and Zomato were valued at 23x and 32x on its IPO price thus making the Paytm valuation quite expensive. Along with the lofty valuations, doubts also persist on its business model as the company which started off as payment application shifted focus on e-commerce due to stiff competition. It then entered into spaces such as stock broking, mutual fund distribution, buy-now-pay-later, insurance thus facing risk of multiple higher regulatory environment. Also, getting into these offerings, the company faces a tall task in taking on market leaders such as Zerodha and Policy bazaar.

Conclusion

Though it is a little early to tag Paytm IPO a failure it was a disappointing event for sure. It is best that investors evaluate and choose investment in tech platform IPO companies carefully and not apply blindly in all of them. Also the investment in some of them, should be done with a long-term horizon and not merely for listing gains. The market is expected to reward companies which demonstrate robust revenue growth with improving unit economics and reduction in losses.

The underwhelming response to Paytm IPO is also likely to have far-reaching impact on to be listed queue of other tech giants. It will force many such IPO-bound tech giants to revisit their strategy pertaining to their valuation, issue size, message to potential shareholders about road to profitability, their right to win in intense competitive environment etc. Also Paytm's listing and returns in couple of months post that would also play role in other tech IPOs timing to hit the market as some fixated on a particular valuation might delay their plans for a couple of months.

UNLOCKING & EASING OFF RESTRICTIONS BRINGS CHEER, SIGNALLING NORMALCY

Moving towards our previous normal

With the corona vaccination campaign in full swing, the prevalence of coronavirus in India is decreasing day by day and the number of active patients has also come under control. Hence, the country is witnessing unlocking in phases and easing off restrictions, varying across states. For instance, with the reopening of crowding activities such as physical school and cinemas which have reopened for the first time since the advent of COVID indicates we are slowly moving towards our previous normal. After being cooped up indoors, the easing of restrictions will lead to revenge phenomenon such as revenge shopping, revenge partying, revenge tourism which will lead to higher consumption.

Vaccination update

As of 12th Nov 2021, nearly 80% of India's adult population has received at least 1 dose of vaccine and 38% have been fully vaccinated. The first vaccine was administered on Jan 16, 2021 and since then on an average 3.6 mn doses were given daily in the last 10 months. India has administered most covid vaccines, 2nd only to China and as per the Health Ministry, the Government is targeting 90% of the adult population to receive at least 1st dose by Nov 30, 2021 which spells good news.

SAFETY MEASURES BEING ADOPTED WITH REOPENING.

Isolation rooms, touch free dispensers in schools

Cinema halls in many states operating at 50%-70% capacity

Worker sanitizing the elevator of a shopping mall

Waiter wearing PPE serving food to diners

What's open and What's not

MULTIPLEX INDIA

ENCOURAGING RESPONSE AFTER COVID INTERVAL

The reopening of cinema halls has been a blessing as it was among the worst hit. Currently, seven markets Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, Rajasthan, Gujarat and Delhi have given the go-ahead for full occupancy. Punjab cinemas operating at 66% capacity while other states are at 50%-70% capacity with Maharashtra at 50% and West Bengal at 70%

Re-opening: Primary response to the reopening has been encouraging with near full cinema during Diwali. In some cinemas in Mumbai, shows were being held 24/7 due to high demand. With numerous new movie releases in the pipeline, multiplexes are all set to reinstate their past glory. Several safety measures being undertaken such as vacant alternate seats, marking circles on the floor near ticket and food counters, use of e-tickets, thermal screening, staggered timings between different screens.

Impact: OTT viewing seems overdone with people itching to watch movie on the big screen, outing and food. As occupancies and average ticket prices start nearing pre-COVID levels, advertising revenues could also gather momentum. Drive-in cinemas such as the new rooftop theatre Reliance Jio world drive accommodating 290 cars are also getting popular.

SCHOOLS

SAFE LEARNING WITH SAFE MEASURES

Schools are reopening in most of the states after 20 months of closure. Some of the states have resumed offline classes in a phased manner beginning with senior classes 9 to 12, however, there are few states which will be opening up now. Tamil Nadu: Already resumed offline classes in September starting with senior classes. West Bengal: Schools will be reopening from Nov 16th for senior classes i.e 9 to 12. Karnataka: Government schools had already opened up in phased manner since August while private schools decided to open up after Diwali. Delhi: Physical classes resumed from Nov 1st in a hybrid manner. Maharashtra: Reopened the schools for classes 5 to 12 in rural areas from October 4 and for classes 8 to 12 in urban areas.

Re-opening: Many schools have strict SOPS in place such as staggered timings, hybrid system of attendance, Full vaccination of teachers, floor stickers, isolation rooms, medical department etc. Attendance has been made optional and students are required to get parental consent before attending school.

Impact: The reopening of physical school will likely lead to revival of Paper & Pulp industry, Textile industry for uniform clothing, stationary shops, large Passenger Commercial vehicles (school buses), two-wheeler demand, footwear, etc. In addition, as people relocate back from their native places, they will prefer houses around educational institutions which can spike up real estate rental

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RESTAURANTS/-CLUBS/MALLS

NIGHT LIFE BACK AGAIN

Almost all states in India have by now allowed restaurants, pubs and malls to open with state-wise guidelines on operating timings. Although the restaurants allowed dine in with strict restricted timings and days (only weekdays) since June 2021 in most states, the restrictions have eased off since then. Currently Maharashtra has allowed restaurants to remain open till 12 am at 50% capacity compared to earlier timing of 10 pm and which is not too far from the pre-covid timing of 1.30 am. West Bengal has allowed seating capacity of 70% not beyond 11 pm. Gujarat restaurants are allowed to be open till 12 am with 75% capacity

Re-opening: Most of the restaurants are witnessing a comeback of demand with increase in footfalls especially over the weekend. The relaxation of timings have also reduced the overcrowding during festive season. Safety measures such as full vaccination of staff, keeping one metre distance between chairs, replacing cloth napkins with serviettes, switching to disposable menus, dedicated staff for sanitising dining areas are some of the safety measures adopted.

Impact: Gradual pick up in average number of footfalls expected with shift of customers from online ordering to physical and will be further boosted by the festive season. High Impact on alcohol and spirits businesses to be seen along with increase in revenue for FMCG companies from wholesale supplies. Christmas break in December is likely to see traffic coming from foreign crowd.

AMUSEMENT PARK

SWINGING BACK TO NORMALCY

Amusement Parks remained closed entirely in Maharashtra during pandemic except between Dec 20 to April 21. They have been allowed to reopen from 22 Oct, 2021. The permission has been provided only for dry parks and not water parks. In states like Karnataka and Andhra Pradesh, amusement parks have been allowed since August 2021.

Re-opening: Safety protocols put in place are minimising queues at rides through virtual queuing through app , operating at less capacity, sanitiser dispensers placed around park and allowing only fully vaccinated customers. Amusement parks will be ramping up gradually, operating mainly on weekends to control cost. Group bookings which are still not back to pre-covid level will see gradual improvement overtime.

Impact: Jobs for un-skilled workers, eateries business, transportation, etc will benefit with full opening. After an exhausting lockdown of staying indoors, families are longing to go out on outings. With the phenomenon of revenge travel/outing on the rise, healthy footfalls are expected in the coming holiday season.

Social Gatherings / Wedding

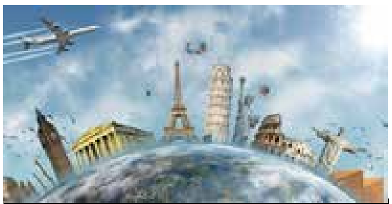
BIG FAT INDIAN WEDDINGS TO BE BACK WITH A BANG

Weddings/Social gatherings though allowed still faces a cap on the number of guests. Most of the states have increased the cap limit on social gatherings, weddings, and religious festivals such as Maharashtra allowed to operate at 50% capacity, Delhi and Gujarat it is capped at 200.West Bengal at 70% capacity while Rajasthan has lifted all restrictions and decided to allow any number of guest.

Re-opening: Safety measures such as downsizing guest list, RTPCR/vaccination certificate, wearing mask all times being undertaken. Hotels and resorts are witnessing an uptick in business thanks to enhanced capacity limits, easing of restrictions and vaccination rates.

Impact: Apart from Hotels/resorts, Catering, Decorations, wedding planners, jewellery business, luxury clothing expect a busy season in the next few months with the wedding season kicking in. High end weddings expected to make full recovery by March 2022 and do better business than 2019. As the country returns to normalcy, weddings/functions will keep witnessing a gradual uptake in the guest list as well. December which is considered as a party month with Christmas breaks and new year expected to give a boost to parties/social functions.

INTERNATIONAL TOURISM



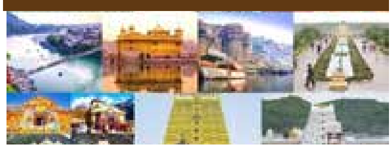
READY TO TAKE OF

International Travelling has become the pariah of all businesses as organized companies still haven't recovered back to pre-covid level travel. And now after 20 months of closure, India has allowed foreign tourists to fly into India on charters from October 15, 2021 and on Nov 15, 2021 India reopened its doors for fully vaccinated tourist on non-charter flights. Foreign tourist has been allowed in quarantine-free from as many as 99 reciprocating countries including US, UK, UAE, Qatar, France and Germany.

Re-opening: Sky high international airfares due to limited airbubble flights will be hindering both inbound and outbound travelling in the meantime. The government is also taking measures to boost tourism by issuing the first five lakh tourist visas free of charge

Impact: Leisure travelling and vacations will take a while to catch up till flight prices become reasonable as airbubble flights are three to four times higher than normal flights . With the opening up of commercial international airfares are likely to fall and will positively impact sectors such as Hotels, Airlines, touring companies etc.

RELIGIOUS PILGRIMAGES



Religious Pilgrimages and shrines have re-opened for pilgrims in most of the holy centres.

Re-opening: Strict social distancing norms are preventing most people from visiting such places, and may take few more months and near 100% vaccination before people start visiting.

Impact: Hotels & Restaurants, tour managers, recreational vehicles, etc. yet to pick up their business.

WHAT CAUGHT OUR ATTENTION THIS MONTH

Aviation Boom as domestic traffic rises 67% YoY to almost 87-88 lakh in October 2021, led by reducing Covid-19 cases and the increasing travel during festive season across India.

The number of weekly average daily fliers stood at 352k (88% of the pre-covid average seen between Apr'19-Feb'20) in the week ended 13th Nov'21

Domestic airlines increased 46.4% YoY, while the number of departures for the month increased about 18% sequentially.

DoT amends Unified License Agreement and allows 100% FDI under automatic route, but with boundary riders

The rider states that entity/beneficial owner of investment/citizen of a country that has a land border with India can invest only under the government route.

Both direct and indirect foreign investment in the licensee company will be counted for the purpose of estimating the total FDI

India's stock exchanges have decided to jointly move to the T+1 settlement cycle in phases from Feb 25, 2022 beginning with bottom 100 stocks by market cap

T+1 means settlements will have to be cleared within one day of the actual transactions taking place.

The phase-wise implementation is expected to give all market participants, including FPIs, ample time to shift to the shorter cycle.

Nitin Gadkari aims to make the Indian Automobile sector number one in the world for export of electric vehicles, in five years time.

He also stressed on the use of ethanol in vehicles as a cost effective and pollution-free substitute to other fuels.

He believes that the cost of electric vehicles (EVs) will come down to a level that will be at par with their petrol variants.

OMCs plan mega EV charging infra push at pumps

OMCs have bet big on EVs becoming a major segment of the country's automobile sector.

BPCL has planned to offer charging stations at around 7000 petrol pumps while Indian Oil is planning at 10,000 fuel stations

GST mop-up at Rs 1.3 lakh crore in October 2021, second highest so far

GST collection was higher by 24% YoY and 36% over the pre-Covid levels of 2019.

Apart from the recovery in demand backed by the festive sales, the government also attributed growth in GST to improved compliance level

Going by the festive sales in November and trend in e-way bills, experts claim that the collection is expected to remain healthy in the coming months.

India Composite PMI signals strongest monthly expansion since 2012 in October

The Composite PMI Output Index rose from 55.3 in September 2021 to 58.7

The acceleration in growth was broad-based across the manufacturing and service sectors.

Greater consumer confidence, ease of travel due to lesser Covid restrictions and burgeoning demand led to expansion

Business sentiment at two-year high; jumps nearly 90% in Q2 as per National Council of Applied Research (NCAER)

The NCAER Business Confidence Index (BCI) increased by about 80% to 117.4 in Q2FY22 from 65 last year while it jumped nearly 90% sequentially

The BCI was the highest for consumer non-durables at 123.9 and the lowest for capital goods at 111.4

Sentiments improved sequentially in Q2FY22 for production, domestic sales, exports, new orders, imports of raw materials, and pre-tax profits

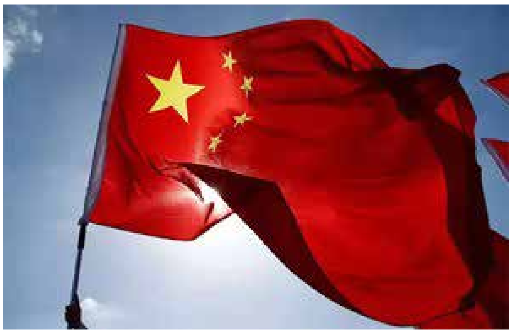
Global News that caught our attention this month

Elon Musk offloads $5 billion in Tesla shares days after Twitter poll

After setting off a Twitter poll asking whether he should sell 10% of his stake in Tesla, almost 58% of 3.5 million votes were cast in favor of him proceeding with the sale.

The sales will cover tax obligations for stock options granted to Musk in September

The billionaire last sold shares in 2016, when he exercised options and liquidated some of the newly acquired stock to cover about $590 million of income taxes.



China's economy weakens as GDP in Q3 declines to 4.9%, down from 7.9% in Q2 and 18.3% in Q1

The slowdown was due to the pressure from the crisis-hit property sector, curbs on energy due to power crisis and tardy recovery from the COVID-19 pandemic.

Experts said that China's GDP growth in the fourth quarter will face extra pressure, which may further drag down China's GDP growth for the whole of 2021

Yahoo pulls out of China for good, cites 'Challenging' environment and Yahoo's services will no longer be accessible from mainland China from November 1.

Yahoo was the latest of the many tech companies leaving China after Microsoft Linkedin. It also blamed the Chinese government's new restrictions and challenging operating environment.

China's latest five-year plan with more information control and other regulations would make it even harder for companies to operate.

China has overtaken the US as the world's richest country as its net wealth rose to $120 trillion in 2020 from $7 trillion in 2000, according to a report by McKinsey Global Institute

The US' net wealth more than doubled in the last two decades to $90 trillion, while global wealth rose to $514 trillion, the study said.

China accounted for almost one-third of gains in global net worth over the past two decades

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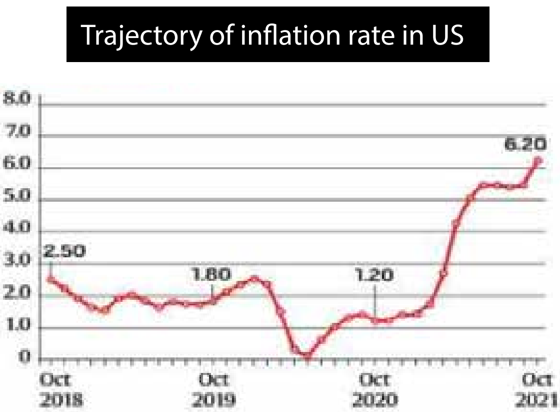
US President Joe Biden signed a $1.2 trillion infrastructure bill into law which is the biggest US infrastructure revamp in more than half a century

He stated that the law is a blue-collar blueprint to rebuild America. With this next year will be the first year in 20 years, that American infrastructure investment will grow faster than China's.

The $1.2 trillion package is the most significant government investment of the kind since the creation of the national highways network in the 1950s



At 6.2%, retail inflation in the US has made the highest YoY jump in 3 decades

Retail inflation in the US has been rising sharply almost every passing month since May 2020. This has been a cause of concern for citizens as the Fed targets an inflation rate of just 2%

Typically, inflation spikes can be assigned to either an increase in demand or a decrease in supply. In the US, both factors are at play.

THANK YOU

We would love to hear from you...

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