MONTHLY NEWSLETTER

MARCH 2022

RESEARCH & RANKING™

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WHAT CAUGHT OUR ATTENTION THIS MONTH?

BANKING SECTOR RECOVERY

BETTING BIG

The banking industry is the backbone of any economy. When the pandemic struck, there was concern and uncertainty among the stress formation and health of the banking industry. The demonetization, GST & RERA implementation, corporate asset quality woes, Asset Quality Review (AQR), had weakened the banking industry and many thought the pandemic could be the final nail in the coffin for an already struggling sector. Will loan growth hold up, will the asset quality worsen, will the capital be sufficient, will banks be able to raise fresh capital, will the borrowers survive the pandemic, how long will the pandemic last, were the burning issues surrounding the banking sector. Two years on, we have still not heard the last word on the pandemic. However, the banking sector appears to have come out of this crisis stronger than ever.

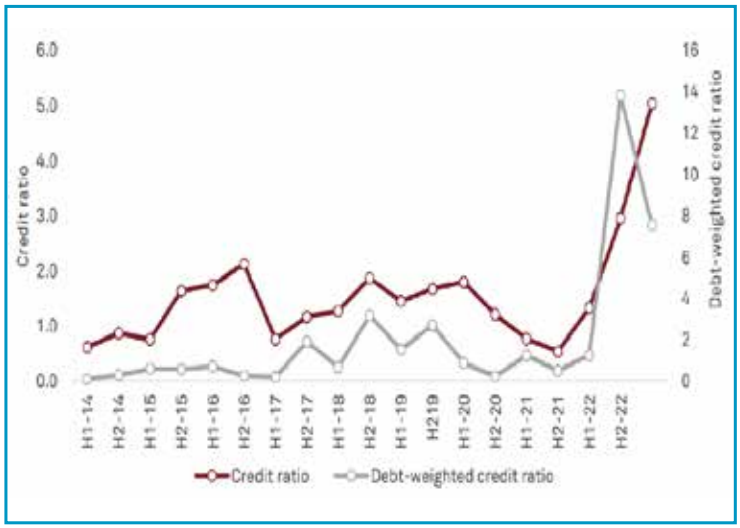
Sectors that saw high upgrades in the H2FY22

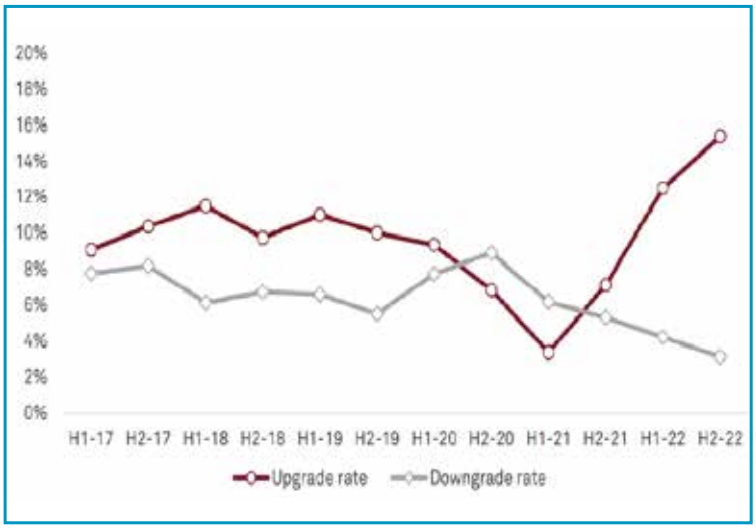
CRISIL's Credit Ratio Rises On Underlying Improvement

CRISIL, the market leader in providing ratings and analyzing debt of its rated companies, has analyzed 5400 entities in its rated portfolio across 43 sectors. As per the analysis, CRISIL credit ratio (upgrades to downgrades) increased to 5.04x in H2 FY22, up from 1.96x in H1 FY22, highlighting the continued improvement in the performance of the corporate sector. The downgrade rate declined to 3.1% in H2 FY22 from 4.2% in H1 FY22. The downgrade rate is much lower than the 6.5% average seen in the past 10 half year periods.

CRISIL's rated portfolio indicates a decline in the median gearing (D/E) to 0.55x in FY22 v/s 1x five years back. Similarly, the median interest coverage ratio has increased to 4.14x from 3.14x over the same period.

The overall improvement is due to a sustained pickup in demand, significant corporate deleveraging, and proactive relief measures the government announced. Resurgent demand across domestic and global markets has helped shore up profitability of businesses. In the developed markets, fiscal stimulus fuelled demand for India's exports, which reached an all-time high of $400bn.

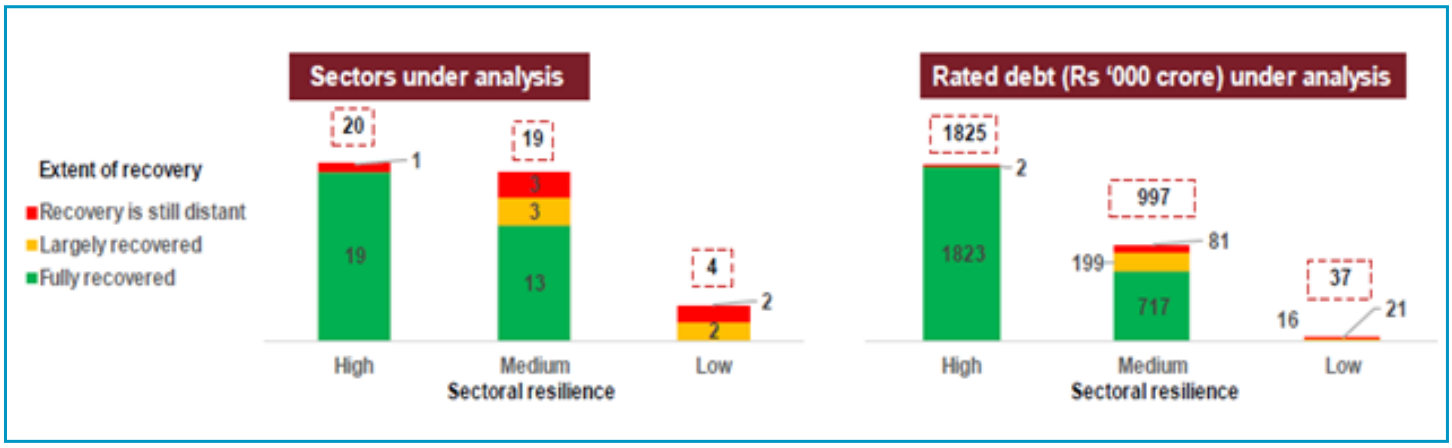


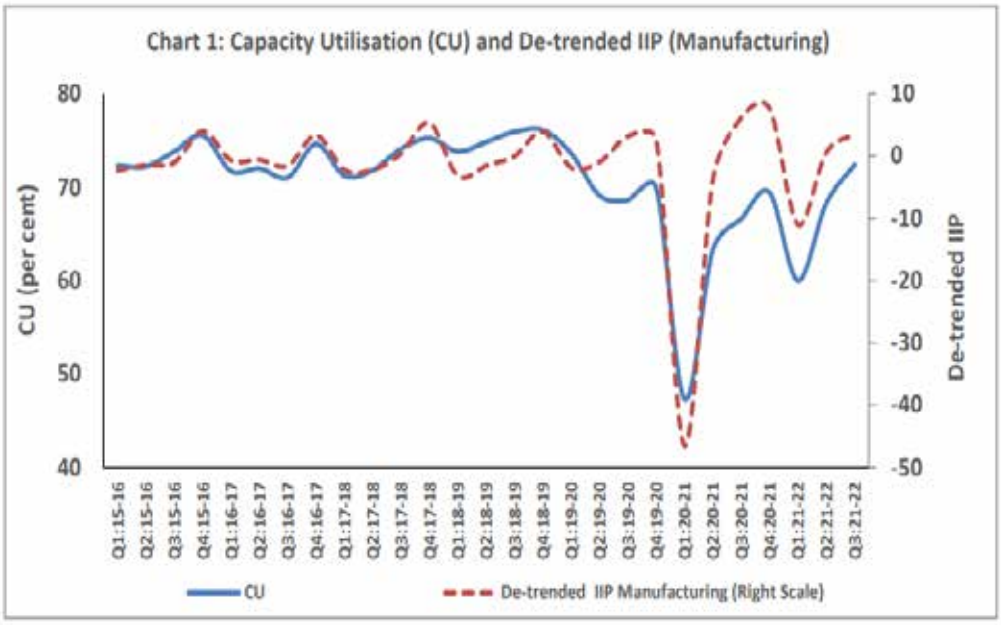


Source: CRISIL Ratings

Share Of Debt In Sectors Yet To Recover Meaningfully Is Miniscule, Improved Financial Parameters To Drive The Next Leg Of Credit Growth.

As per CRISIL's analysis of 43 sectors assessed, 32 sectors have fully recovered to pre-pandemic levels, 5 sectors are largely recovered (Auto dealers, Gems & Jewelry, Electrical Equipment, Industrials, Residential RE), and only 6 sectors are still a long way from fully recovered from the pandemic disruptions (Retail, Airlines, Airport Operators, Auto 2w, Education Services, Hotels & Resorts). In terms of debt, 89% of debt belongs to the fully recovered sectors, 8% are in the largely recovered category and just 3% of debt corresponds to sectors, which are a long way from being fully recovered.

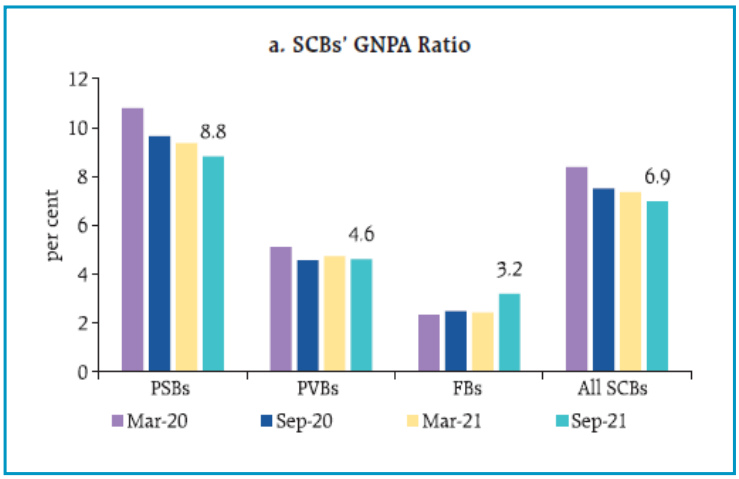


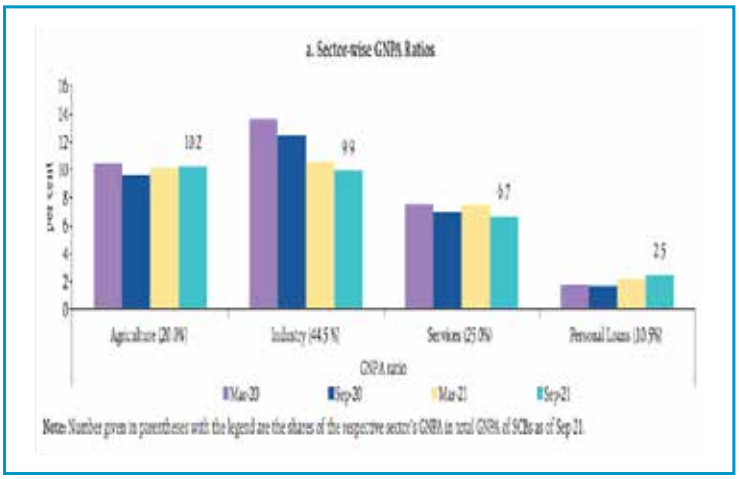


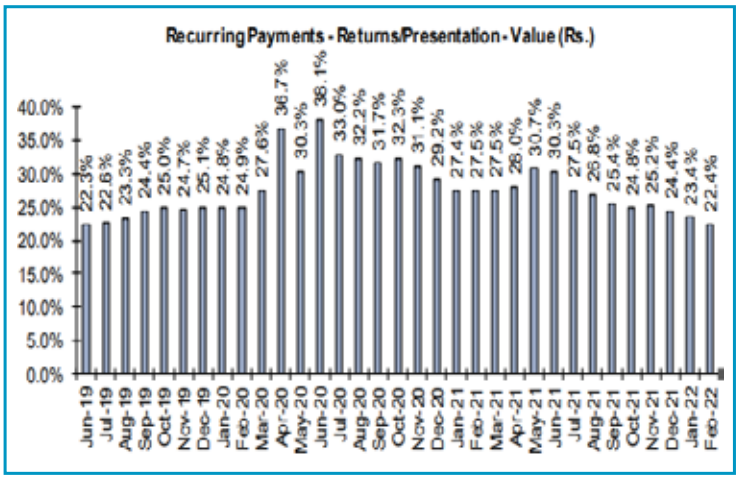
While the D/E ratio has come down significantly and companies are in a position to leverage their balance sheets, capacity utilization (CU) is what fuels fresh CAPEX. We have seen capacity utilization levels picking up materially from the lows of the pandemic and crossing pre-pandemic levels in Q3 FY22. Once the CU decisively moves over 75%, we will see companies coming forward to build fresh CAPEX and restart the cycle that has been subdued since FY12.

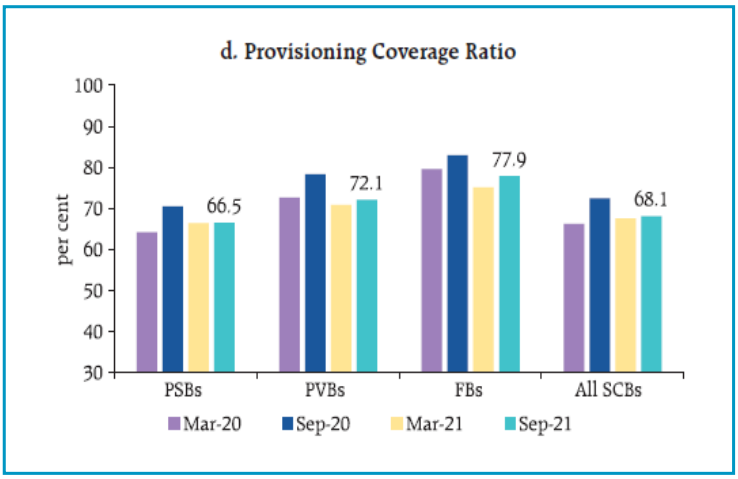
Asset quality has shown improvement since Mar '20 for both Public Sector Banks (PSBs) and Private Sector Banks (PVBs), witnessed in the reduction of GNPA over the period. The industry sector has seen the sharpest reduction in GNPA, the agriculture and services sector have seen stable GNPA, and personal loans (retail) sector has seen a rise in GNPA. However, the retail sector GNPA ratio is still the lowest among all sectors. Bounce rates have also been trending lower since May '21 and currently stand at 22.4%, which is better than pre-COVID levels. A lower bounce rate is reflective of lower people defaulting on their payments. Provisions have been beefed up and the provision coverage ratio (PCR) of 68% is a healthy cover to guard against NPLs, up from a low 40% in FY14. High provisions, declining GNPA ratio, and waning of pandemic issues sets the ball rolling for a period of high growth and profitability for the banking sector.

Declining GNPA ratio led by Industry GNPA, declining bounce rates, and strong PCR means banking sector is well placed for growth and profitability



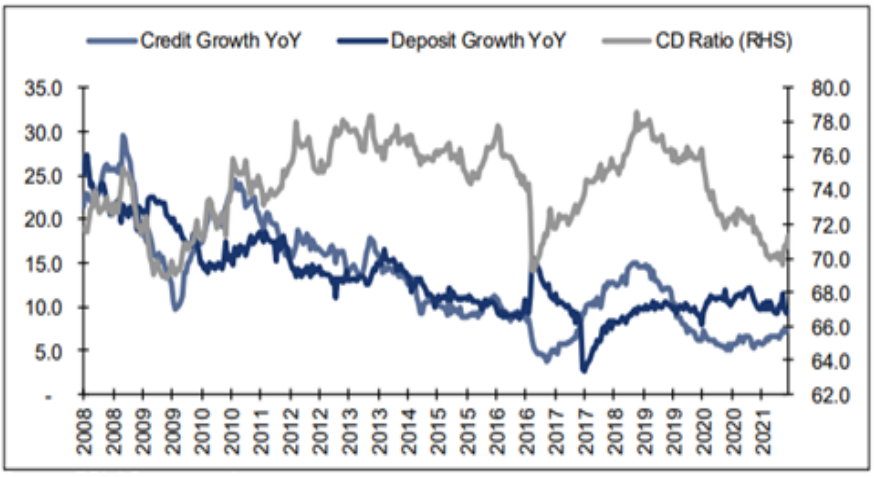






Bank Credit Growth Picking Up

We have seen bank credit growth drifting lower for most part of the last decade, with 10-year average growth prior to the pandemic at 12.5%. However, the bank credit growth has now picked up to 9.6% in FY22 after having bottomed out at 5% in FY21 and the momentum is likely to take it higher in FY23. The CD ratio of 70% is on the lower end, which means there is scope to enhance credit growth even with a less proportionate growth in deposits.



Conclusion

The banking sector has gone through a tough time in the past decade and especially in the past five years led by challenges caused due to demonetization, GST & RERA implementation, corporate asset quality woes, and when the pandemic struck, it appeared that this would just break the back of the banking sector. However, what is noteworthy is that while the problems kept mounting, there was also a process of inner healing and repair, which was being undertaken not just by the banks, but also the borrowers of the banking sector and the corporate sector in particular. Corporate balance sheets started getting deleveraged, focus shifted towards core assets and sale of non-core assets, better utilization of resources was being undertaken, while assets shifted from weaker hands to stronger hands via IBC. These reasons made the banking sector extremely resilient and helping it emerge stronger post the pandemic. Fundamental parameters are extremely robust making a strong case for an uptick in the growth and profitability.

AUTO ANNUAL TRENDS







Particulars	FY21	FY22	YoY (%)
Two-Wheeler	**11,533,928**	**11,973,415**	**4%**
Hero Moto Corp	4,129,775	4,132,555	0%
HMSI	2,966,990	2,973,128	0%
Bajaj Auto	1,285,712	1,400,797	9%
E-Two-Wheeler	**41,046**	**231,338**	**464%**
Hero Electric	14,771	65,303	342%
Okinawa	6,972	46,447	566%
Ampere Vehicles (Greaves)	5,903	24,648	318%
Ather Energy	4,401	19,971	354%
OLA Electric	NA	14,371	NA
Three-Wheeler	**258,172**	**388,093**	**50%**
Bajaj Auto 3W	94,634	135,699	43%
Atul Auto	10,678	13,256	24%
Piaggio Vehicles	47,323	43,951	-7%
E-Three-Wheeler	**88,391**	**177,874**	**101%**
Mahindra Reva	3,218	8,037	150%
YC Electric Vehicles	8,936	17,049	91%
Passenger Vehicles	**2,387,925**	**2,726,047**	**14%**
Maruti India	1,163,042	1,165,483	0%
Hyundai India	414,552	442,677	7%
Tata Motors	187,974	312,088	66%
Tractors	**644,965**	**636,119**	**-1%**
Escorts	70,695	66,518	-6%
M&M (Tractors)	149,718	145,855	-3%
Commercial Vehicle Sales	**449,324**	**652,125**	**45%**
Tata Motors	163,171	275,380	69%
Ashok Leyland	58,130	92,585	59%
Volvo Eicher	23,372	40,214	72%

KEY TAKEAWAYS

- For Full year total vehicle sales grew by ~7%, segment wise except for tractors (-1%) all other categories of vehicles witnessed growth in FY22.
- International crude prices crossed US$ 100 mark for the first time since 2014. This resulted in petrol / diesel prices skyrocket thus negatively impacting consumer confidence.
- In FY22 the auto industry went through multiple headwinds such as chip shortage issues, rising RM costs and weak demand in rural areas of India.
- The ICE 2W segment was impacted by rural distress, saw further dampening due to rise in vehicle ownership cost coupled with high fuel costs, while the Electric 2Ws segment grew in multi folds due to lower ownership costs supported by government subsidies and high preference towards E-2W due to rising fuel costs and better options available (entry of OLA Electric).
- The 3W segment was witnessing a shrinkage in market size due to educational institutions being closed and work from home phenomenon. A tactical shift from ICE to EV is visible as ~45% 3W market is driven by EVs.
- PV's continues to see high demand and long waiting period as semi-conductor availability still remains a challenge even though supplies slightly improved from February-22. We expect chip shortage issue to persist due to geopolitical issues and fresh lockdowns in China.
- CV's continue to grow in high double digit due to strong demand in passenger and cargo segments.

Conclusion

With re-opening of educational institutions and offices could see some pent up demand for 2Ws. Apart from this, huge pending order book with PV OEMs provide strong visibility for upcoming quarters. The EV space is gaining a lot of popularity and has become quite attractive for commercial businesses engaged in last-mile delivery and ride sharing. Elevated fuel costs and rising ownership cost of ICE vehicles will push Electric vehicles going forward. We continue to remain positive on Auto Industry and believe industry could show cyclical upturn.

CONSOLIDATION BOOM

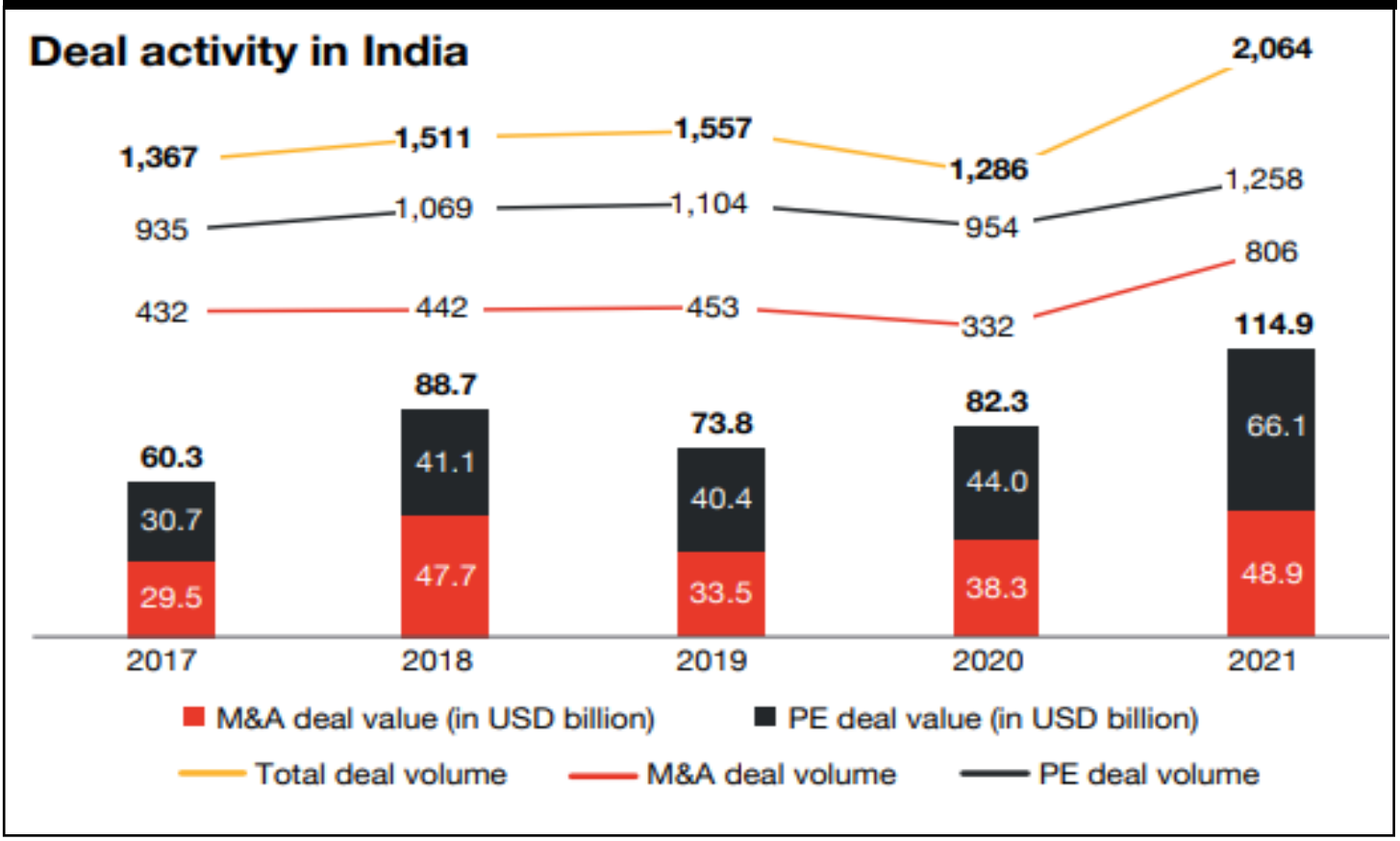
We have been seeing a flurry of large M&A deals in the domestic market, as the Covid-19 pandemic recedes, and economic activity begins bouncing back across sectors. If year 2021 was a blockbuster year for IPOs in India, then year 2022 will put a spotlight on the deal space and will be known as the year of consolidation. Mergers & acquisitions started off on a strong footing, hitting a four-year high at USD 30.3 billion in the first quarter of 2022. According to the M&A numbers collated by Refinitiv, the M&A activity grew 29.6% YoY in volume terms and 5.6% YoY in value terms in the first quarter of 2022.

Covid led disruptions have been a main factor for the deal intensity. However other factors like increased digitalization, strict and changing regulations, cost pressure and liquidity squeeze have led to acceleration in the deal transactions.

Date Announced	Acquirer	Target	Rationale	Consideration
04-April-22	HDFC BANK	HDFC WITH YOU, RIGHT THROUGH	**Type- Reverse Merger** A merger would be beneficial as the merged entity would gain from lower cost of funds and would also help HDFC Bank build its home loan portfolio	1.68 shares of HDFC Bank for every 1 share of HDFC Ltd
30-Mar-22	AXIS BANK	citi	**Type- Acquisition** Citi India was looking to exit the retail business as part of global restructuring.	Payment of up to Rs. 12,325 Cr ($1.6 bn) to Citibank in all cash deal
29-Mar-22	TATA TATA CONSUMER PRODUCTS LIMITED	TATA COFFEE	**Type – Merger** Simplification of group structure and synergistic benefits	3 equity shares of Tata Consumer for every 10 shares held by Tata Coffee
27-Mar-22	PVR	INOX LIVE the MOVIE	**Type- Merger** PVR and INOX had to come together to create a dominant position in the multiplex industry and to fight against OTT challenge	3 shares of PVR for every 10 shares of INOX.
16-Mar-22	zomato	blinkit	**Type-Takeover** Quick commerce is teeming with competitors. The takeover will help fight against Swiggy's Instamart.	Consideration of up to $700 mln
28-Feb-22	Biocon	VIATRIS	**Type – Acquisition** To create a unique fully integrated global biosimilars enterprise	Consideration of up to USD 3.3 billion

The above deals are expected to catalyze further consolidation and trigger more mergers in the near to medium term. The year 2022 should be a bumper year for M&A in India wherein, more deals are designed to transform a business and not just grow it. Indian conglomerates are overhauling their portfolios through M&A, betting on profit pools of the future in areas such as digital, renewables, electric vehicles, and fintech. To fund these moves and manage their portfolios, they are also pruning ownership in legacy assets or in subscale positions.

DEAL ACTIVITY IN INDIA 2021 SURPASSED THE PRE-COVID LEVEL; MOMENTUM EXPECTED TO CONTINUE IN 2022



FACTORS LEADING TO ACCELERATION IN DEALS

DISRUPTION FUELLING THE CONSOLIDATION BOOM

The emergence of disruptors is a key reason for the M&A activity gathering momentum. The OTT challenge, played its part in pushing PVR and INOX to come together.

FROTHY IPO VALUATIONS/ RUSSIA UKRAINE WAR

The public market saw a number of startups with over-hyped valuations leading to their stocks subsequently collapsing. Planned IPOs are getting delayed, with several factors, from the Ukraine conflict to the soaring oil and commodity prices, leading to continued choppiness in the equity market and growing trend towards consolidation.

INVESTORS TURNING TO REAL DISRUPTIVE BUSINESS MODELS

If there is a sector with 50 companies, chances are large investors will prefer it to have 10 and push for consolidation and stronger balance sheets. The bottom line, quite literally, is that investors will now look for a clear path to profitability. A lot of consolidation and deal transactions will be driven by such concerns.

In a radically changed world, characterized by uncertainty, geopolitical instability, shifting consumer preferences and accelerated digitization, there is a heightened need for agility and adaptability to remain relevant. Businesses are showing signs of adapting, be it embracing technology, diversifying non-core businesses, tapping new markets through acquisitions, divestitures and fundraising. In the post-pandemic world, companies are also forced to react more quickly to competition by consolidation in order to capture a share of the pie. The trend of 'Big getting Bigger' is also being witnessed globally as seen below:

MAJOR GLOBAL DEALS IN 2022

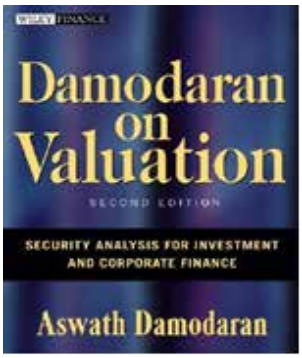
Date	Acquirer	Target	Consideration
April, 2022	THOMABRAVO	Anaplan	**Equity firm Thoma Bravo announced it was acquiring Anaplan, the SaaS financial planning tool, for $10.7 billion.**
March, 2022	Berkshire Hathaway Inc.	Alleghany	**Berkshire Hathaway acquired insurance company Alleghany for $11.6 billion**
March, 2022		MANDIANT	**Google's $5.4 billion deal to buy cloud and managed cybersecurity provider Mandiant adds new capabilities such as automation**
February, 2022	TD Bank	FIRST HORIZON.	**Toronto-Dominion Bank Group acquired Memphis-based First Horizon bank in a $13.4 billion deal**
April, 2022			**Another big one for the rich getting richer. Elon Musk has made a bid to buy Twitter, however Twitter and its shareholders have taken measures to thwart the deal which is laden with controversies. We have to wait and watch for this one to see where it is headed.**

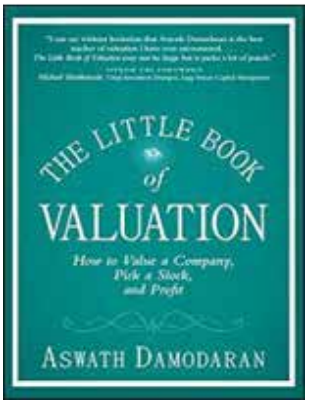
FOOD FOR THOUGHT

ASWATH DAMODARAN WEBINAR- KEY TAKEAWAYS

RESEARCH & RANKING™

We attended a webinar to learn from the world's leading expert in corporate finance and valuation, Aswath Damodaran.





Webinar Topic: The Corporate Lifecyle: Growing old is hard to do!

About Aswath Damodaran (Finance & Valuation Expert):

Aswath Damodaran is the Kerschner Chaired Professor of Finance at the Stern School of Business at New York University

He has written five books on valuation, three on corporate finance and three on portfolio management and his most recent book is Narrative and Numbers, published by Columbia University Press.

His blog, Musings on Markets, was selected by the Times of London as one of the top ten stock market blogs in the world.

He has been garnered with the Schools of Business Excellence in Teaching Award in 1988, and the Distinguished Teaching award from NYU in 1990

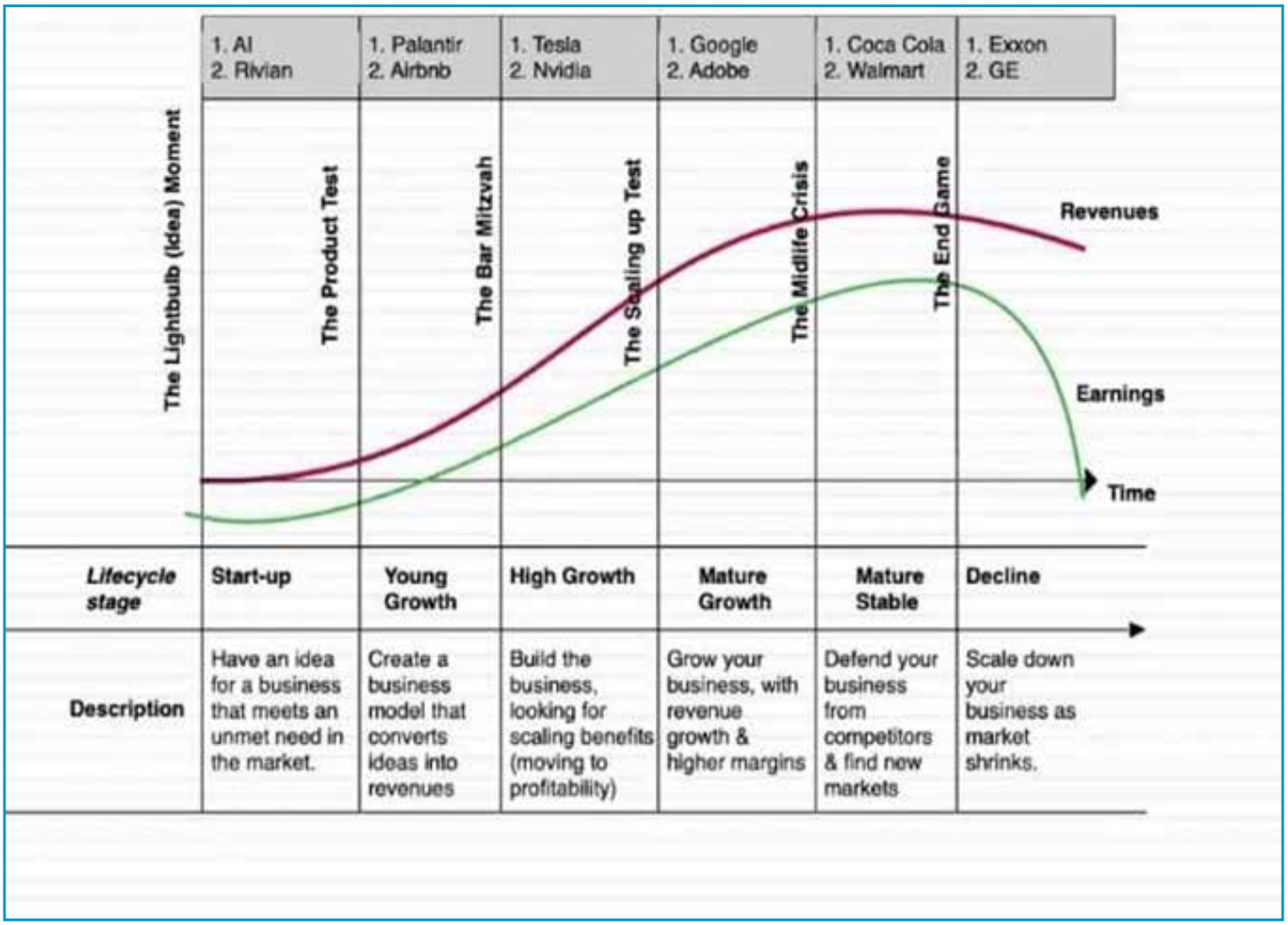
Companies age, just as individuals do, and they don't often do so gracefully, again like individuals. Growing old is not an easy thing to do but on the other hand there are companies that are ageing gracefully, injecting themselves with new life, rejuvenating themselves and come bouncing back. In this webinar, Aswath Damodaran goes through each stage in the company's life cycle, what it takes to growing old gracefully and more importantly, what it takes to stay relevant whether you're a young company trying to make a mark or an old company trying to stay in the game. The webinar speaks about how the investors should time their entry in a corporate lifecycle.

Companies lifecycle similar to a human being's life cycle

STAGE 1- STARTUP	STAGE 2- YOUNG GROWTH	STAGE 3- HIGH GROWTH
		
A startup is like a baby, cries and needs constant attention, sometimes lots of capital. For eg: Artificial Intelligence companies	A very young company is like a toddler, falls and gets up. Sometimes falls and doesn't get up.	Companies struggle like teenagers. A teenager looks in the mirror every morning and says ' I have lots of potential, what can I do today to ruin it all up'. For eg: Tesla

STAGE 4- MATURE GROWTH	STAGE 5- MATURE STABLE	STAGE 6- DECLINE
		
Companies then turn into **young working adults** who are in the peak of their lives. Everything they touch turn into gold.	A middle aged man wants to be young again. For eg: Google & Facebook trying hard to remain relevant	Companies then start declining. For eg: Apple is no longer a growth company since a decade, GE is a walking dead company

CORPORATE LIFE CYCLE



KEY HIGHLIGHTS OF THE WEBINAR

BUSINESS DECISIONS:

Every decision a business makes falls into three buckets- Investment decision, Financing decision, dividend decision. Depending on the stage in life cycle, the company's focus will be on one decision.

For eg: Paytm is a young company, the focus should be on investment decision. The financing decision are mainly taken by mature company on deciding the mix of equity and debt. A declining company should focus on harvesting its fruits i.e. giving back cash to the owners of business whether through dividends or buyback.

CASH FLOWS:

Young companies will tend to have negative cash flows as they don't make much money and they need to reinvest huge amounts to keep going. These negative cash flows become positive once they peak and become mature company. And then, when the company goes into decline, the cash flows are going to go down as well.

VALUATIONS:

Valuations don't come from spreadsheets. They come from connecting stories to number and hence every valuation is the story behind it. The balance shifts depending on where the company is in the life cycle. Young companies valuation come primarily from stories. For eg. Zomato financials aren't of any help because it's a young company and only its story drove the valuation. On the other hand, for older companies, one can be more dependent on numbers

LEVEL OF CERTAINTY/UNCERTAINTY:

The level and type of uncertainty an investor faces for young companies will shift across life cycle with young companies facing an immense amount of uncertainty about the future, about how the company will evolve, whether the management is upto the task. As companies mature, the amount of uncertainty will decrease. An investor who doesn't like telling stories or dealing with uncertainty will be stuck valuing and investing in mature companies. And the problem is that the market of mature companies is getting smaller and smaller.

PERFECT CEO:

In a young company, the CEO needs to be a visionary, a story teller. As the company builds up, the CEO should be someone who can build the business and not just tell a story. In case of a mature company, the CEO should be somebody who can play defence with different set of skill sets. And then finally when the company goes into decline, it would need somebody who is willing to make the company smaller. People with big egos cannot run companies that are declining because they hate to admit that they essentially cannot make the company bigger.

DEALING WITH SHORTER LIFE CYCLE COMPANIES:

Growing old is mandatory but growing up is optional. Good companies grow up as they grow old. Companies that refuse to grow up even as they are growing old are going to throw good money after bad decisions.

RISK CAPITAL:

Last year, people were attaching a large value to companies that actually had very little in substance in terms of revenue and operating income. For that to work one needs risk capital which is what public market investors are willing to bet on potential ones. Risk capital has been in abundance in the last 10-12 years in both public and private market. If we look at 100 years data, risk capital comes in and goes up. In 2001, risk capital had been burned by the dot-com bust. So now the risk capital is not in abundance as at some point in time there comes exhaustion, but this too shall pass. But this doesn't necessarily mean that putting all your money in mature companies is the best strategy for the next decade. The key remains in adopting balance.

WHAT CAUGHT OUR ATTENTION THIS MONTH?

Made-in-India Dornier plane takes off for first commercial flight

The first-ever India-made 17-seater Dornier aircraft will connect five remote towns of Arunachal Pradesh to Assam's Dibrugarh

The aircraft's operations marks an important milestone in the Indian aviation history, as it will boost air connectivity of the North East region with the rest of the country.

Retail sales grew 28% MoM in Mar-22 with removal of Covid restrictions

The overall retail sales grew 12% in Mar-22 as compared to pre-pandemic levels of Mar-19

In terms of categories, consumer durables and electronics clocked the highest growth followed by furniture and furnishing, and food and grocery

Industrial output growth hits 4-month high of 1.7% in Feb-22 from 1.5% in Jan- 22 and a decline of 3.2% in Feb-21, as per the National Statistical Office data

Mining and electricity led the mild rise. Manufacturing, however, continues to be a laggard with a growth of 0.8%

Mergers & Acquisitions (M&A) activity in India touched a 4-year high in Q1CY22 at US $ 30.3 bn

Deal activity grew 5.6% YoY in value terms making it the highest since 2018 when it was US$ 31.1 bn

The majority of the deal-making activity was aimed at the high technology sector as the deal values totalled US$ 6.6 billion, accounting for 21.8% market share.

Electric scooters catching fire in India

Multiple incidents of two-wheeler electric vehicles made by the likes of Ola, Okinawa, Jitendra and Pure EV abruptly bursting into flames have been reported

The actual reasons EVs catching fire are currently unknown as the companies have said they are investigating the matter

Cardless cash withdrawal facility across ATMs soon

RBI announced that cardless cash withdrawal system has been proposed to be made available in all bank branches and ATMs across India using UPI

At present the facility through ATMs is limited only to a few banks

RBI governor added that the absence of the need for physical cards for such transactions would help prevent frauds like card skimming, card cloning, etc.

CPI inflation rockets to 17-month high of 6.95% in March from 6.07% in February

This is the third consecutive month in which inflation has come in above the 6% upper bound of the RBI mandate

The RBI's latest forecast pegs average CPI inflation at 6.3% in Apr-June 22 and 5.8% in July-Sept 22

India's services activity at 3-month high as Covid curbs ease

The S&P Global Purchasing Managers' Index (PMI) for services rose to 53.6 in March from 51.8 in February

The upturn in the services sector activity was led by new business orders, strengthening demand conditions, and higher consumer footfall

Services Pickup

	Services PMI	Composite PMI
Jul	45.4	49.2
Aug	56.7	55.4
Sep	55.2	55.3
Oct	58.4	58.7
Nov	58.1	59.2
Dec	55.5	56.4
Jan	51.5	53
Feb	51.8	53.5
Mar	53.6	54.3

Nepal's decision to ban import of non-essential items may hit India hard

Nepal is India's ninth largest export destination with $9.6 billion of exports to the landlocked country in calendar year 2021

The ban was undertaken to prevent further decline of the country's foreign exchange reserves.

RBI cuts GDP growth projection to 7.2% for 2022-23 from 7.8% earlier

RBI slashed its economic growth projection due to fluctuating crude oil prices and supply chain disruptions amid the ongoing war between Russia and Ukraine.

In addition to that, RBI has also hiked its inflation forecast for FY23 to 5.7% a sharp increase from the 4.5% forecast

After 6 Months, Foreign Portfolio Investors Turn Net Buyers In April

Foreign investors have turned net buyers in April so far by infusing ₹ 7,707 crore in Indian equities

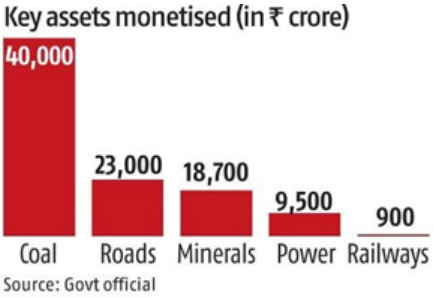
The correction in markets provided them with a good buying opportunity

It would still be slightly premature to call it a change in trend concerning FPI flows. Hence, it will be prudent to watch how the scenario unfolds over the next few weeks or months

Govt exceeds FY22 asset monetisation target

The Centre has completed asset monetisation worth Rs 96,000 crore during FY22, surpassing the target of Rs 88,000 crore

For FY23, it has set itself a goal of Rs 1.62 trillion, and already has a pipeline of assets worth Rs 1.6 trillion under advanced stages of implementation



GLOBAL NEWS THIS MONTH

Sri Lanka announces default on all of its $51 billion external debt

Sri Lanka's finance ministry said in a statement that the government is taking the emergency measure only as a last resort in order to prevent further deterioration of the its financial position

The nation is grappling with its worst economic downturn since independence, with regular blackouts and acute shortages of food and fuel.

OPEC cuts 2022 world oil demand forecast due to Ukraine war

OPEC cut its forecast citing the impact of Russia's invasion of Ukraine, rising inflation as crude prices soar and the resurgence of the Omicron coronavirus variant in China

OPEC said inflation was the major factor impacting the world economy and lowered this year's economic growth forecast to 3.9% from 4.2% and said there was a chance of a further cut.

Nepal becomes 4th country to launch India's e-payment system RuPay

Nepal, after Bhutan, Singapore and the United Arab Emirates became the fourth country in the world to operationalise India's e-payment system RuPay

The Indian External Affairs Ministry said the launch of the card in Nepal would open new vistas for cooperation in financial connectivity and further strengthen people-to-people linkages.

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THANK YOU

We would love to hear from you...

Contact us at:

MUMBAI OFFICE
Contact No : 022-61013818

Marathon Futurex, A-603 6th Floor, Mafatlal Mills Compound,
N M Joshi Marg, Lower Parel East, Mumbai 400013

DELHI OFFICE
Contact No : 0120-6675900

A-40, Office No. 202, 2nd Floor, I-Thum Tower, Sector 62, Noida 201301, India

BENGALURU OFFICE
Contact No : 080-46013333

3rd, Floor, Unit No-302, PALMS SQUARE, 125, Brigade Road, Bengaluru-560025

THANE OFFICE
Contact No : 022 – 62327101

Unit No.306, 3rd Floor, CentrumPlot C-3, S.G. Barve Road,
Wagle Estate, Thane (West) – 400604