MONTHLY NEWSLETTER

November 2022

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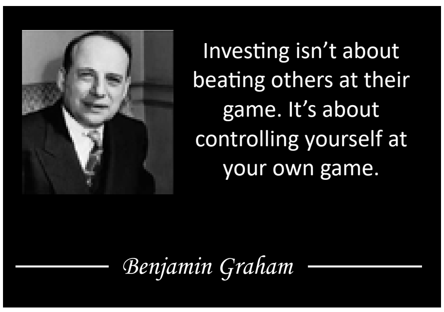

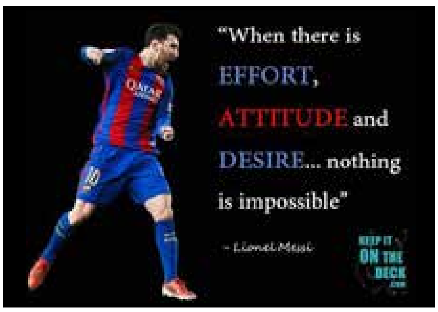

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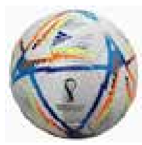
– Drawing Parallels



What caught our attention this month !

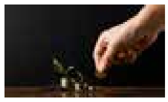
Invest Yatra

BUSINESS INSIGHTS THAT MATTER

Ahmedabad Delhi Mumbai Hyderabad

Our research team in the past one month has met over 40 corporates across multiple cities and industries. The team held in-depth discussions with senior management teams on the current business environment. strategy, outlook & growth plans. Below are the important takeaways from the meetings for some prominent sectors.

BANKING AND FINANICAL SERVICES

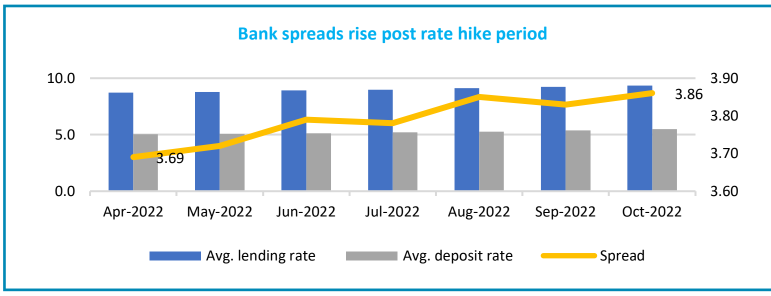


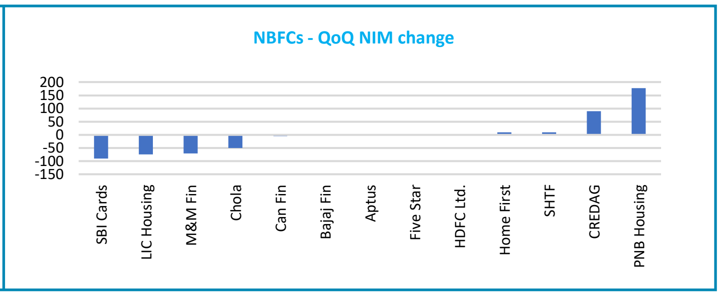
Lending – Favourable Trends

- **Divergent NIM trends for Banks and NBFCs:** Banks' NIMs and spreads are rising due to high floating rate loans mix and expansion of Credit Deposit (CD) ratio. NBFCs NIMs on the other hand are flat to declining owing to high share of fixed rate loans. NBFCs plan to utilize undrawn lines, focus on high disbursements growth at incrementally higher lending rates to mitigate the NIM impact. As per CRISIL, bank credit growth will outpace NBFC AUM growth by at least 200bps in FY24
- **Pace of deposit rate hikes are slower than lending rate hikes:** This is due to CD ratio being low and sufficient scope to grow advances even with current deposit growth.
- **Shift to EBLR is largely done except for retail loans having higher tenure:** Higher EBLR share makes the yields move more in tandem with RBI policy rate, making the policy rate more effective.
- **Credit card revolver rates are below pre-COVID levels:** This is due to tighter risk management policies post pandemic, weeding out of weaker borrowers and high EMI share.
- **Share of pre-approved loans is increasing in the system:** This is an outcome of higher digital adoption, strong credit systems like CIBIL, more fintechs like BankBazaar, Paisabazaar etc. pushing the product leading to higher customer adoption, higher competition in the PL segment.
- **Banks share to NBFCs has risen from 27% to 36% over FY18-22:** This began with ILFS crisis and continued due to rising bond rates and spreads over G-Sec especially for lower rated borrowers.

Other trends:

- Co-lending volumes are small but segment is here to stay. Renewed interest is visible from PSBs.
- Used Vehicle market is getting more organized and helping Used CV financing; PV demand has improved, supply chain issues sorted, rising fuel prices is impacting 3w sales.





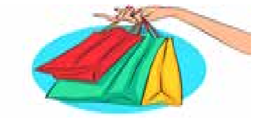
NBFC-MFIs – Holding onto a new leash

- NBFC MFIs increased lending rates by 200-300bps post the RBI regulations which removed the spread cap. It will take 15-18 months for the incremental lending rate to flow to the entire book.
- MFIs have also started growing their customer base after a gap of 2 years.
- Attendance at centre meetings has slowly started picking up.

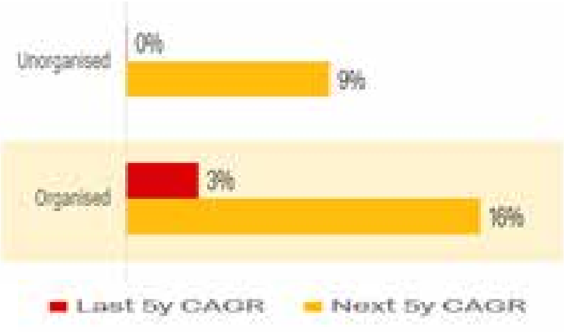
Non-leading – AMCs trend mixed, digital evolving

- In AMC industry, commission rates have improved but still lower than 2019 levels. Yields for AMCs are on the decline despite equity market share in AUM inching upwards due to rising share of ETFs.
- There are 3.6cr unique MF investors of which 50-60lakh investors are invested in ETFs. At industry level, 30% of equity is SIP and bulk has come in the last 3 years.
- Higher cost of compliance in digital lending due to regulatory tightening, consumer protection.
- Future equity raise is essential for digital lenders as they are loss making and cannot approach traditional financiers. Digital success is a play on economies of scale and labour costs not being low.
- Fintechs have found success in lending to small ticket sizes (< Rs. 2lakhs). Underwriting models of Fintechs are evolving on a daily basis. Events like COVID help speed up the learning process.

CONSUMER SEMI-DISCRETIONARY

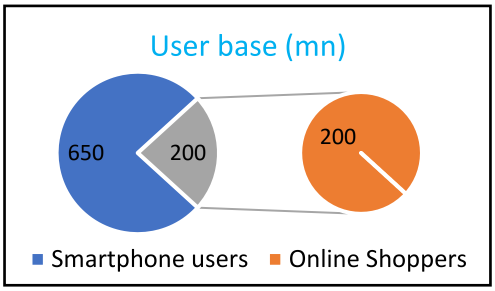


- **Growing appetite for India's ORGANIZED FOOD INDUSTRY.** The organized Food services market in India is expected to grow at 16% CAGR next 5 years (vs 3% CAGR last 5 years) led by favourable demographics, frequency of eating out, convenience, digital penetration, urbanization etc.



Inflation across key raw materials (cheese, chicken, coffee prices etc) have led to steep price hikes across large food chains which have been absorbed to a great extent by the end consumer. However, most companies have hinted at a cautious stance on further price increases to ensure demand is not hampered.

- **FOOD DELIVERY user base opportunity large.** India has a smartphone user base of ~650mn and online shopping base of ~200mn users. The online shopper base is expected to catch up with the smartphone user base. The Food delivery user base in India is much lower than the online shopping user base and has further headroom to increase.



- **VALUE FASHION temporary headwinds.** Value fashion retailers, although facing some pressure in demand in Tier 2-3 towns due to inflation have seen things get steadily better with festive and winter season and expect a double-digit growth trajectory over the medium term

- **HOTEL INDUSTRY confidence levels at a high.** The confidence level of the industry has improved leading to increase in Average Room Rates without impacting occupancy levels. The G20 summit (hosted in India) is expected to have over 200 meetings (Dec'22-Nov'23) and is expected to be a strong lever for demand. The demand trajectory for the industry is expected to outpace supply for the next few years and the upcycle is expected to continue.

- **Changing the way India SNOOZES.** The rise of discretionary consumption has given push to a new product segment with the entry of several D2C players aiming to change the way the country snoozes. In India, the online mattress industry is $150-160mn (of $2bn total mattress market) i.e 7-8% online penetration. The mattress industry is expected to grow at 10-12% CAGR and online penetration expected to reach 20-25% in next 5-6 years. Hence the online mattress market is expected to be a $600mn market in the next 5 years

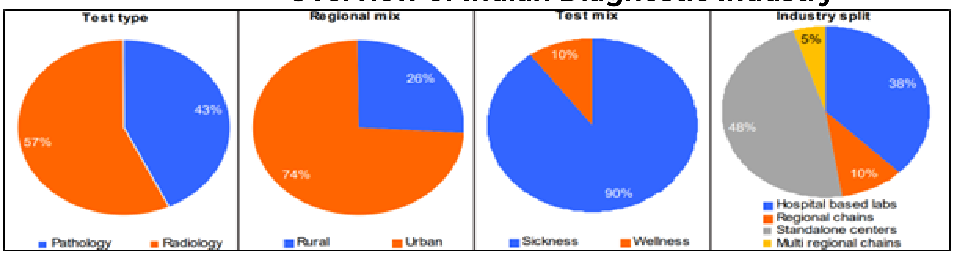
PHARMACEUTICAL & HEALTHCARE

- **M&A looks to be a key growth / diversification area**
  - A speciality injectables player made an acquisition in Europe to getter better foothold where it had limited presence and diversify from a long-term perspective
  - A top pharma management mentioned that beyond R&D and capex, M&A will be the priority when it comes to capital allocation especially in EMs (India, Russia, etc.) & selectively in the EU/US
- Most companies are looking at opportunities in some of the niche markets to provide growth as they look to de-risk from US; few companies in such an attempt are also **leveraging their US product portfolios to tap emerging markets for faster growth**
- In US Generics, near term pressures will continue. Presently price erosion at high single digit to double digits
- **Biologics and Biosimilars remain high focus growth areas in medium to long term** for companies which are at various stages of development and filings

Diagnostics

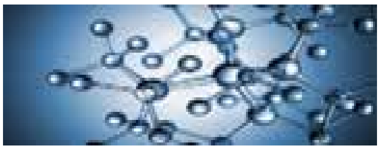
- Diagnostics has undergone structural changes post Covid-19 outbreak like increased home sample collection, focus on preventive/wellness packages etc. In addition, there is also an increased transition towards organized players given their superior quality of services, strong infrastructure and certification, and brand image. This changing landscape has opened up lucrative growth opportunities and **heightened the competitive intensity led by emergence of new companies and business models** including digital platforms, marketplace, hospital-based diagnostics labs, pharma companies setting up testing arms etc.
- **Growth to be driven by volumes and will come at cost of price** as new players especially digital companies have undertaken aggressive discounting strategy to garner high volumes. Presently the elasticity of Indian patients is more towards price and low towards brands, which is impacting profitability of traditional players. The price war is expected to intensify and risk of margin pressure remains high
- Diagnostic companies offering both tests, Routine and Specialized, are placed slightly better as the competitive intensity is higher in routine space

Overview of Indian Diagnostic Industry



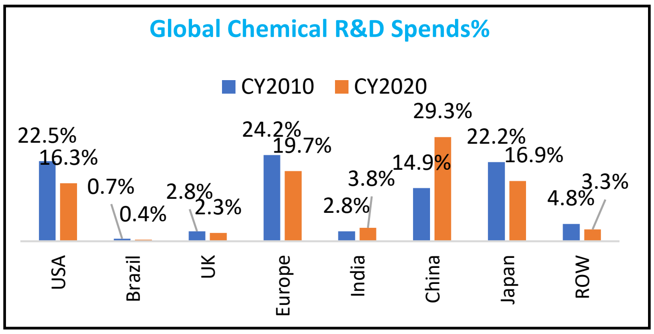
Hospitals and Pharmacies

- Strong growth dynamics for hospitals due to severe under penetration, specially in Tier 1/ Tier 2 cities
- Medical tourism is a strong opportunity for hospitals as market expected to rise +65% CAGR during FY21-25
- Strong expansion plans across hospitals primarily into brownfield projects; **bed capacities to expand by ~30-70% over next 4-5 years,** with part of the new capacity likely to be commissioned from end FY24
- Occupancies have improved from ~52% during Covid period to reach about ~62% in H1FY23; it is expected to further improve to ~70%-75% over next two years and help drive profitability in the near to medium term
- High influx of online pharmacies in the past couple of years driven by the digital disruption
- **Omni-channel pharmacies better placed vis-à-vis online players** led by 1) strong advantage in medicine substitutability, 2) private label sales, and 3) better placed to capture acute medication segment
- Customers go towards online pharmacies mainly for better pricing; No stickiness towards a particular brand
- Online players have resulted in very aggressive discounting game; although this looks to have peaked out and might not increase much further as order fulfilment cost for online players remain high



CHEMICAL

- **Indian chemical companies focusing more on value added products:** Indian chemical companies have consistently invested in R&D and have reaped the benefits in terms of innovative/value-added products, efficient processes, foray into newer chemistries and global recognition. We believe this trend to continue in the future, which will allow them to grab import substitution and export opportunities and sustain growth.



Source: Cefic, Equentis Research

Opportunities galore for India led by China+1 and Europe+1

- Several Indian companies hold leading positions globally in fine/specialty chemicals, with 30–80% of capacity.
- The ongoing energy crisis in Europe is a complex situation for Indian chemical companies. European companies may transfer manufacturing of the low-end products while production of critical products and associate technology will be kept with themselves. Indian companies have the ability to grab this opportunity. Possibility of benefits seems to be select products/chemistry rather than an industry wide phenomenon.
- Chinese chemical industry is expected to face challenges due to government focus on capacity rationalization, environmental protection, and move towards lowering carbon footprint.
- Indian chemical sector has benefitted over the last decade and now stands at a strong footing to serve the global market and currently companies are witnessing higher business enquires and demand from global players.

Fluorochemicals: Global market is expected to grow at 5% CAGR over 2019-2024E. Indian market is expected to grow much higher at ~12%. Traditionally fluorochemicals usage is mainly into air conditioning and refrigeration and now its application has picked up in newer segments such as Pharma, Agrochem and Automobiles. Fluoropolymers is expected to outperform the other segments in the fluorine space as its usage is increasing and evolving in sunrise sectors such as Li-Ion Batteries, Hydrogen Fuel cells and Solar Energy etc.

Textile Chemicals: Globally the demand for dyes and pigments has remained low post the Russia-Ukraine War. The Indian chemical manufacturers are facing stiff competition from China. Even the domestic demand has turned weak due to high inventory. Some of the textile chemical manufactures are operating at less than ~50% utilization levels.

Bromine Chemicals: China's bromine production has dropped by 25% YoY due to environmental issues. Globally bromine chemical market is expected to grow at 4% CAGR over 2019-2024e. Since raw material is available at few select places, it acts as a high entry barrier. Increasing demand for flame retardants is one of the key demand drivers.

Soda Ash: Global market is expected to grow at a CAGR of ~4% over FY22-FY29E. India is a net importer, with demand growing at ~5% p.a. In last 15-year, market globally was largely in a balance with supply matching demand. Its usage in glass is growing at faster pace as demand is coming from Auto, Solar Panels, Real Estate and containers. India's solar capacity is expected to reach ~300 GW by 2030 from 55GW now. No major capacities in Soda Ash is expected to come in next 3 years and demand is expected to exceed supply.

WHAT'S TRENDING

FIFA WORLD CUP AND EQUITY INVESTING– DRAWING PARALLELS

It's Lionel Messi with the ballll, dribbles, still Messi, dribbles 1, 2, 3 defenders, in the D, and it's a goal! Welcome to the FIFA World Cup, where we analyse trends in the most popular game and apply them to our field of investing.

Country	World Cup Wins
Brazil	5
Germany	4
Italy	4
Uruguay	2
Argentina	2
France	2
Spain	1
England	1

Bring 'em on!

There are 32 teams who qualified for the FIFA World Cup Qatar 2022 and as many as 205 teams participated in pre-qualification stages. In the 1978 World Cup, there were only 95 teams who participated in pre-qualification stages and just 16 teams who qualified for the World Cup. Till date, there are 80 teams who have qualified and played in World Cups over the years. The count keeps increasing every year, with Qatar being the latest entrant. Despite the surge in participating countries over the decades, only 8 teams have won the FIFA World Cup till date and only 2 continents have succeeded as champions of the FIFA World Cup, Europe and South America.

The leaders of an industry continue to find their way and excel even in a growing market with higher competitive intensities

A good start is half the work done, not this time!

With the FIFA World Cup kicking off in 1930, Uruguay had a good start, winning the 1930 and 1950 World Cups. However, their joy was short lived and they failed to reach the finals in any of the subsequent World Cup editions. The initial spark did not convert into a long term performance. There were only 28 teams till 1950 but as the number of teams kept increasing, Uruguay found it tough to match the competition.

Don't base long term decisions on just the initial burst, understand the potential of an investment by judging its performance over a longer period

Never say never

Morocco created history this World Cup, becoming the first African team to enter the semi-finals of any World Cup. It was unbelievable to many, but not to Morocco who put in years of hard work and perseverance to reach this stage, despite faltering. They started their journey in 1962 but failed to qualify, reached group stage in 1970 but again failed to qualify in the next 3 editions, reached round of 16 in 1986, group stage in 1994 and 1998 but again didn't qualify in the subsequent 4 editions. This didn't deter them, they reached the group stage in 2018 and finally the semis in this edition.

The journey to becoming a big and successful investor / company in an ecosystem may not be easy when small, however continuous effort and focus can help one achieve resounding success

Complacency is a bad word

Italy emerged as finalists in World Cup editions in the 1970s, 1980s, 1990s and 2000s. They have been semi-finalists 8 times, finalists 6 times and World Champions 4 times. Despite these accomplishments, Italy failed to qualify for Qatar 2022 World Cup.

Never get complacent with your investments, monitor them at regular periods of time and replace them with other alternatives if the long term thesis is distorted

Form is temporary, class is permanent

Germany has emerged as the most consistent country, winning 4 titles and emerging as runners up on 4 occasions. Since the 1950s, there is not a single decade gone by in which Germany were not World Cup finalists.

Look for classic long term compounders in your portfolio. These are key to overall long term growth and sustenance of one's portfolio

Inconsistency is part of the game / way of life

Brazil has been a favourite of many football fans, filled with star studded players. However, they have been inconsistent and performed only in bursts. Over 1950 to 1970, 6 world cups happened, with Brazil winning 3 times and being runners up 1 time. After 1970 and prior to 1994, they failed to become finalists and again over 1994 to 2002 comprising 3 world cups, they won 2 times and were runners up 1 time.

Some stocks although inconsistent, perform exceedingly well over certain periods of time. Key is to identify those phases and make investments appropriately

United we fall, divided we stand

Over 1930 to 1990, Russia emerged as semi-finalists only once. However post Croatia being carved out of Russia in 1990, Croatia has been a semi-finalist on 3 occasions in 1998, 2018 and 2022 World Cup editions. Croatia has performed much better than Russia and that too, over a shorter period of time.

Carving out / demerger of a segment / business from its parent / conglomerate can help the entity perform better. Finding value unlocking stocks through confirmed carve outs / potential demergers is key

Old giving way to new

In a surprising move and contrary to popular choice, 37-year old Cristiano Ronaldo was benched during the game against Switzerland in this year's World Cup. His replacement, a 21-year old Goncalo Ramos stunned fans by scoring a hat trick and playing a key role in Portugal's 6-1 victory in that game.

It is important to identify stocks / sectors which have reached maturity / stagnation in growth and replace them with new and emerging ones.

Against the run of play

In a closely fought match, Argentina beat Netherlands 4-3 in this year's World Cup quarter finals by penalty kicks. Everyone from team Argentina rushed to Lautaro Martinez who hit the winning penalty except Lionel Messi, who went and hugged his goalkeeper Emiliano Martinez, who saved 2 penalties. Saving a penalty is 4 times more tougher than scoring one.

There are stocks which may have a low success probability but can deliver multibagger returns. It is important to identify and include such stocks as well in ones portfolio in order to achieve above average returns and not only chase consensus stocks with high success probability

We hope you enjoyed the journey of the most popular sport and its learnings from an investing point of view. Don't forget to tune in and enjoy the finals of the World Cup this Sunday!

WE ARE CHEERING FOR **HOW ABOUT YOU???**

WHAT CAUGHT OUR ATTENTION THIS MONTH !

RBI rate hike as expected but was a bit hawkish on the margin

RBI's Monetary Policy Committee (MPC) hiked the benchmark policy rate (repo rate) by 35 bps to 6.25%.

The RBI governor also stated that inflation has remained at or above the upper tolerance band since January 2022 and core inflation is persisting around 6%.

The policy seemed slightly hawkish on the margin and indicated that there may be space for further tightening, although it will depend on the inflation trajectory and the terminal rate for the US Federal Reserve.

Tax collection to exceed Budget estimate by Rs 4 lakh crore, says Revenue Secretary

India's tax collection will exceed the budget estimate in the current fiscal on the back of buoyant income tax, customs duty and GST mop-up, Revenue Secretary Tarun Bajaj.

He said the growth in tax revenues will continue to be higher than the GDP growth, helped by formalisation of the economy and better compliance.

For this financial year ending March 2023, the tax collection target set in the Union Budget is ₹27.50 lakh crore.

The direct tax collection comprising personal and corporate taxes would be close to ₹17.50 lakh crore in the current fiscal. Mop up from indirect taxes (customs, excise and GST) would be close to ₹14 lakh crore.

India may get Russia oil at below $60 per barrel

Indian refiners may be able to source most of their Russian oil purchases at a rate lower than the West's price cap of $60 after international prices fell.

Multiple government officials and industry executives said domestic refineries will continue to buy cheap Russian oil with no major shipping or insurance trouble expected as the market rate for the key grade has fallen below the cap.

The US and its allies have barred the use of its shipping, insurance and financial services for any Russian oil deal struck above the cap of $60

India's fiscal consolidation trend intact; to see strong revenues, debt stabilisation, says Moody's

Moody's Investors Service said the trend of gradual fiscal consolidation remains intact for India and going forward the country will see strong revenue performance and debt stabilisation.

India's 'Baa3' sovereign rating balances its strength of relatively high economic growth and weakness of one of the most highly indebted emerging market sovereigns.

Further improvement with regard to fiscal situation and a faster than expected pace of fiscal consolidation leading to substantial debt reduction would translate into a positive rating pressure on India.

India's WPI inflation eases to 5.85% in November

India's wholesale price index-based inflation eased to a 21-month low of 5.85 % in November from 8.39 % in October on an annual basis, as per provisional data from the Commerce Ministry.

Decline is primarily contributed by fall in prices of food articles, basic metals, textiles, chemicals & chemical products and paper & paper products as compared to the corresponding month of the previous year.

The month-on-month change in WPI index for November 2022 witnessed a contraction of 0.26 % as compared to 0.39 % growth in October. India has been focusing on controlling high inflation levels.

Finance Ministry proposes issuance of one licence for all kinds of insurance

Finance Ministry on December 1 proposed the issuance of one licence for all kinds of insurance for new as well as existing insurance companies.

The composite licence will facilitate open access for insurers in any line of business. Such insurers will be allowed to enter any segment -- life, health, general.

Insurers can also apply for any subclass of business like motor, health, and accident.

Export duty removal will boost business sentiments of steel industry

The government has cut the export duty on steel products and iron ore to nil with effect from November 19, 2022 -- six months after imposition of the levy on May 21.

Removal of export duty on steel products will lead to a new era of growth for the domestic steel industry which has gained footprint internationally

The move will boost business sentiments of the steel makers. It will also boost the demand and investments in the sector

November sees highest sales in the history of automobile industry in India

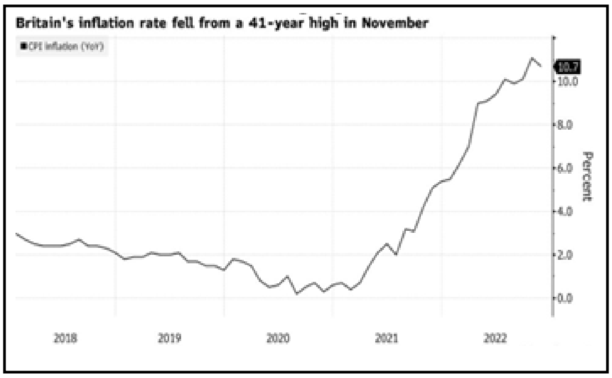
Registering a growth of 26% on an annual basis, auto retails in November 2022 clocked record high numbers, the Federation of Automobile Dealers Associations (FADA).

Around 23.80 lakh units were sold in November this year, compared to 18.93 lakh units in November 2021 and 23.44 lakh units in November 2019, a pre-Covid year.

The highest ever automobile sales was supported by robust registrations across all the categories of automobiles.

November 2022 has clocked the highest retails in the history of the Indian automobile industry with March 2020 as an exception when retails were higher due to BS-4 to BS-6 transition.

GLOBAL NEWS THIS MONTH



UK inflation slows to 10.7% in November

British inflation slowed in November from October's 41-year peak, as per the data, but remains elevated as a cost-of-living crisis sparks strikes across the economy.

The annual rate of consumer price inflation dropped to 10.7% in November from 11.1% in October, which was the highest level since 1981. Market expectations had been for a November reading of 10.9%.

The modest slowdown followed falls in the price of motor fuel, but inflation remains high owing to soaring domestic energy and food bills.

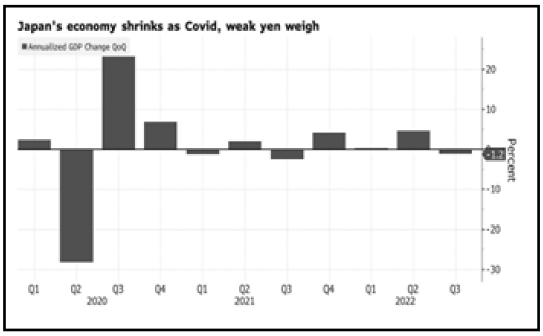
Global trade surges to record $32 trillion in 2022, says UN report

The value of global trade is set to reach a record this year, increasing by about 12% to an estimated $32 trillion, according to a U.N. report that signaled a slowdown heading into 2023.

The substantial trade growth during the last year was largely due to increases in the value of the trade of energy products.

Trade in merchandise goods soared to $25 trillion, an increase of about 10% versus the prior year. Trade in services grew 15% yoy to nearly $7 trillion, as per the report.

The U.N. body expects the inflation-adjusted value of global trade will diminish next year because of the combined impact of geopolitical frictions, lower economic growth, higher prices for goods and record levels of global debt



Japan's economy unexpectedly shrinks as hot inflation, global slowdown take toll

Japan's economy shrank for the first time in four quarters as inflation, a weak yen, and another COVID-19 wave have harmed the country.

Gross domestic product fell an annualised 1.2% in July-September, official data showed, compared with economists' median estimate for a 1.1% expansion and a revised 4.6% rise in the second quarter.

Economists are optimistic for the fourth quarter, with tourism expected to rebound due to fewer COVID-19 restrictions.

China retail sales plunge to 5.9% in November as Covid woes continue to wreak havoc

China's retail sales plunged in November, official data showed, as Covid restrictions and a property market crisis hammered the world's second-largest economy.

November retail sales sank 5.9 percent on-year, marking the second successive contraction, according to data released by the National Bureau of Statistics (NBS). Markets were expecting a contraction of 3.7%.

China was the last major economy persisting with a zero-Covid strategy through harsh lockdowns and mass testing, with authorities effectively abandoning the policy only last week after suffering an economic slowdown and mounting public anger.

THANK YOU

We would love to hear from you...

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