श्री LAKSHMISHREE

Gateway to your Financial Goals

Test Of Time For DII's

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INVEST TODAY,

FOR

BETTER

TOMORROW !!

From Managing Director's Desk To Readers

Corona vaccine booster dose and Stock Market

The majority of Americans have now received their complete COVID-19 vaccination. Many people are now seeking a COVID-19 booster injection to keep them safe from the COVID-19 versions that have emerged. And, in the future, vaccination will very indeed become an annual occurrence.

Novavax stock

The stock is still down dramatically from its all-time high of $330, which it reached in February of this year. As a result, if and when all of these files are accepted by authorities and the necessary authorizations are provided, there will be a considerable upside for investors. Many individuals throughout the globe have not yet received the Novavax vaccination, which is why the vaccine is so desperately required. In the United States, the chance is restricted to individuals who have not yet received the vaccine and those who need booster injections.

Because of safety concerns, both the Pfizer and Moderna booster doses were only available to specified demographics. The possibility of significant business potential for Novavax as a booster arises as a result. So far, the safety record of the Novavax vaccine, NVX-CoV2373, has been flawless.

Novavax may have a considerable share of vaccine income in the United States next year, based on the safety profile of the Novavax vaccine and the FDA's favorable attitude toward "mix-and-match" vaccinations.

Pfizer stock

Pfizer's George Budwell said the following: As of the beginning of this year, Pfizer's stock has gained by an impressive 23.5 percent, making it one of the best-performing large-cap pharmaceutical companies in the year 2021. The COVID-19 vaccine, known as Comirnaty, developed with BioNTech, has been a significant driver of the drugmaker's stock price increase this year. Comirnaty reported record revenues of $13 billion in the third quarter of 2021, underscoring the importance of this statement even more.

Furthermore, this top-selling COVID-19 vaccine is expected to be a significant income generator for the firm for an extended period. After all, Comirnaty was the first COVID-19 vaccine approved by the Food and Drug Administration (FDA) for use as a booster dose in specific patient groups.

However, the company's success narrative is not only based on the mega-blockbuster COVID-19 vaccine. In its most recent quarterly report, the business reported strong revenue growth for the blood thinner Eliquis, developed in collaboration with Bristol Myers Squibb, the hereditary transthyretin-mediated amyloidosis drug Vyndaqel/Vyndamax, and the breast cancer therapy Ibrance.

Even after subtracting sales of coronavirus vaccines, Pfizer's top line increased by a solid 7 percent in the third quarter of this year compared to the same time the previous year. That is genuinely remarkable revenue growth for a large-cap pharmaceutical firm of this caliber.

Walgreens Boots Alliance

It is remarkable to avoid going to a different facility for subsequent treatment, you may choose to return to the one where you had your first few doses. What about the pharmacy that has provided over 40 million doses of the COVID-19 vaccine if you're seeking a firm to invest in for the booster market. Walgreens Boots Alliance is the company in question.

Compared to the same period last year, sales at the local pharmacy increased by 11.8 percent in the fourth quarter that concluded August 31. The company's omnichannel strategy seems to be working well, as seen by a triple-digit surge in digital sales during the quarter, including processing more than 23 million same-day purchase requests.

With over 85 million Walgreens members, the firm has a substantial client base from which to generate recurring income if it successfully develops strong customer connections. For example, yearly influenza vaccinations or COVID-19 boosters, as well as age-based immunizations such as the shingles vaccine, are all recommended.

Salil Shah

Managing Director
Lakshmishree Investments & Securities Pvt Ltd

Look What Our Research Analyst Has To Say…

Nifty has potentially made a short term top and for near term has corrected in the month of December make a strong support at 16850 under cutting it towards the end of the month and closing above it. With lots of concerns growing for new variant of Corona Virus and booster doses across the globe, the overall market space will remain under pressure from news flows. Technically a close below 16850 with volumes on the rise will be a kiss of dead for the bulls and the index will immediately plunge to test the previous breakout zone of 15900 and below that 15524 will be the next target. The month of December was a test of time for the DII's. Relentless selling for the FII's was absorbed by the DII's and for DII's we stand at an inflection point where the US DII's Stood in 1990 where a raging bull market was born for DOW and S&P500. If the strength holds and the fund flow continues, which not only is expected to continue but will also grow at a rate of 12% annually, we are at the brink of a new bull markets in the Indian domain.

Anshul Jain

Research Analyst

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Stocks To Watch

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1. Shalby Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs. 186.3	Buy in the 185-188 band and add on dips to Rs 166-168 band	Rs. 211	Rs. 235	2 Quarters

Shree Varahi Scrip Code	SHALBY
BSE Code	540797
NSE Code	SHALBY
Bloomberg	SHALBY IN
CMP Aug 20, 2021	186.3
Equity Capital (cr)	108.0
Face Value (Rs)	10
Eq. Share O/S (cr)	10.8
Market Cap (Rs cr)	2012.2
Book Value (Rs)	77.3
Avg.52 Wk Volume	634010
52 Week High (Rs)	214.4
52 Week Low (Rs)	72.0

Share Holding Pattern % (Jun, 2021)	
Promoters	74.1
Institutions	3.7
Non Institutions	22.2
Total	100.0

Our Take...

Shalby Ltd is one of the leading multi-specialty chains of hospitals in India, having a bed capacity of 2012 beds. Shalby has a strong presence in western and central India with 11 operational hospitals and has a network of 50+ outpatient clinics across 15 states in India and abroad to increase accessibility to quality healthcare. It has been a pioneer in the field of joint replacements in India, it is also one of the leading providers of quality and affordable healthcare services. Shalby's leadership position in the arthroplasty speciality (joint replacement) segment along with its increased diversification into cardiology, oncology, bariatrics and other non-arthroplasty segments have improved its brand equity.

Shalby Ltd has plans to set up new hospitals through a calibrated expansion strategy. It is pursuing an asset light model of expansion through franchise route for orthopaedics and for joint replacement to expand its pan-India presence. It is expanding its geographical presence by adding new OPD centres across India. It is also investing in the state-of-the-art technology and equipment notably in the cardiac and spine areas to provide best possible services and is focusing on digitalization including revamping the website and launching a very interactive Shalby app to serve the patients. Shalby under the leadership of Dr. Vikram Shah and the management team have demonstrated a strong operational track record of more than two decades in the healthcare industry.

Valuations...

Introduction of franchise model, better occupancies and new service offerings (home care & Shalby Care cards) are the key triggers for the company. Recent Implant facility acquisition will enable Shalby to procure quality implants at a competitive price for captive consumption. Potential to market these products in US and Asia would be significant growth driver. The division's growth will be further augmented by simultaneous accelerated growth of the franchisee model in India. Rapid ageing, greater life expectancy, lack of exercise and altered lifestyles are driving incidences of osteoarthritis (degenerative joint disease) among Indians. Knee replacement surgery in India has been growing in double digits over the years. The company is likely to benefit from this trend due its strong market position and established brand name, especially in this segment. We believe the base case fair value of the stock is Rs 211 (31.5x FY23E EPS, 17.0x FY23E EV/EBITDA) and the bull case fair value of the stock is Rs 235 (35.2x FY23E EPS, 19.0x FY23E EV/EBITDA) over the next two quarters.

Financial Summary…

Particulars (RsCr)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Total Operating Income	192.4	38.4	400.5	145.0	32.6	462.3	486.9	430.9	684.2	737.6
EBITDA	38.3	-4.8	-891.1	31.0	23.6	82.4	81.7	86.4	123.2	136.4
Depreciation	9.0	9.0	0.2	9.4	-4.1	33.2	36.0	36.8	38.1	39.7
Other Income	2.5	2.3	8.9	2.1	17.5	9.3	17.4	9.1	6.8	7.4
Interest Cost	1.0	1.2	-15.7	0.8	30.9	8.1	6.4	3.6	5.0	6.5
Tax	10.6	-4.0	-367.0	13.2	-19.7	18.7	29.1	12.7	23.0	25.6
PAT	20.2	-8.7	-332.1	9.8	106.7	31.7	27.6	42.4	63.9	72.1
Adjusted PAT	20.2	-8.7	-332.1	9.8	106.1	31.7	27.6	42.4	63.9	72.1
EPS (Rs)	1.9	-0.8	-332.1	0.9	106.1	2.9	2.6	3.9	5.9	6.7
RoE-%						4.1	3.5	5.2	7.4	7.9
P/E (x)						63.6	73.1	47.5	31.5	27.9
EV/EBITDA (x)						25.2	25.2	23.1	16.6	15.3

Income Statement…

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**462.3**	**486.9**	**430.9**	**684.2**	**737.6**
Growth (%)	**22.3**	**5.3**	**-11.5**	**58.8**	**7.8**
Operating Expenses	379.9	405.1	344.5	561.0	601.1
EBITDA	**82.4**	**81.7**	**86.4**	**123.2**	**136.4**
Growth (%)	**5.6**	**-0.8**	**5.7**	**42.5**	**10.8**
EBITDA Margin (%)	**17.8**	**16.8**	**20.1**	**18.0**	**18.5**
Depreciation	33.2	36.0	36.8	38.1	39.7
EBIT	**49.2**	**45.7**	**49.6**	**85.1**	**96.8**
Other Income	9.3	17.4	9.1	6.8	7.4
Interest expenses	8.1	6.4	3.6	5.0	6.5
PBT	**50.4**	**56.7**	**55.0**	**86.9**	**97.6**
Tax	18.7	29.1	12.7	23.0	25.6
RPAT	31.7	27.6	42.4	63.9	72.1
APAT	**31.7**	**27.6**	**42.4**	**63.9**	**72.1**
Growth (%)	**-19.5**	**-12.9**	**53.7**	**50.8**	**12.8**
EPS	2.9	2.6	3.9	5.9	6.7

Balance Sheet…

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCES OF FUNDS					
Share Capital	108.0	108.0	108.0	108.0	108.0
Reserves	671.8	691.2	726.7	779.8	837.8
Shareholders' Funds	**779.8**	**799.2**	**834.7**	**887.8**	**945.8**
Minority's Interest	0.1	0.1	0.0	0.0	0.0
Long Term Debt	56.9	48.7	35.5	100.5	95.5
Net Deferred Taxes	-2.0	17.8	22.8	22.8	22.8
Long Term Prov & Others	14.0	17.7	21.9	30.3	31.2
Total Source of Funds	**848.7**	**883.4**	**914.9**	**1041.4**	**1095.3**
APPLICATION OF FUNDS					
Net Block & Goodwill	693.5	675.9	663.1	690.0	705.3
CWIP	1.7	3.0	4.0	4.0	79.0
Other Non-Current Assets	44.6	54.0	58.4	79.5	85.7
Total Non-Current Assets	**739.8**	**732.9**	**725.5**	**773.5**	**870.0**
Current Investments	10.8	27.9	15.5	15.5	15.5
Inventories	12.8	15.2	23.1	66.9	72.3
Trade Receivables	81.4	94.9	87.8	131.2	143.5
Cash & Equivalents	25.4	28.7	83.6	98.2	63.3
Other Current Assets	67.0	67.0	61.2	75.0	80.8
Total Current Assets	**197.3**	**233.7**	**271.2**	**386.8**	**375.5**
Short-Term Borrowings	0.0	0.0	0.0	0.0	20.0
Trade Payables	56.3	60.2	57.6	82.5	90.9
Other Current Liab & Prov	32.1	23.1	24.2	36.4	39.2
Total Current Liabilities	**88.4**	**83.3**	**81.8**	**118.9**	**150.2**
Net Current Assets	108.9	150.5	189.4	267.9	225.3
Total Application of Funds	**848.7**	**883.4**	**914.9**	**1041.4**	**1095.3**

2. Steel Strips Wheels Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Base Case Fair Value	Time Horizon
Auto Ancillaries	Rs. 1720	Buy in Rs 1710-1740 band & add more on dips to Rs 1510-1530 band	Rs. 1877	Rs. 2056	2 Quarters

Shree Varahi Scrip Code	SSWL
BSE Code	513262
NSE Code	SSWL
Bloomberg	SSW IN
CMP Sep 24, 2021	1719.5
Equity Capital (Rs cr)	15.6
Face Value (Rs)	10
Equity Share O/S (cr)	1.6
Market Cap (Rs cr)	2622.0
Book Value (Rs)	480.0
Avg. 52 Wk Volumes	73700
52 Week High	1958.4
52 Week Low	413.0

Share Holding Pattern % (June, 2021)	
Promoters	62.8
Institutions	1.3
Non Institutions	36.0
Total	100.0

Our Take…

Steel Strips Wheels Ltd (SSWL) commands a leadership position in the steel wheels segment with an overall market share of ~50-55% and

~20% in the alloy wheels segment. The company has witnessed strong demand over the past few quarters and it is expanding its steel as well as alloy wheels capacity to meet the increasing demand. It is concentrating more on alloy wheels and export segment both of which are higher margin segment and expects these segments to contribute ~50% of revenue in 3-4 years from 35% in FY21. Globally the alloy wheel market is of ~35cr wheels p.a. and SSWL is eligible to participate in global RFQ. Furthermore, the company could also explore inorganic expansion for steel wheel rim capacity in the near term. It has already announced resolution plan for acquisition of AMW Autocomponent (AACL) under corporate insolvency resolution process that has been approved by the committee of creditors of AACL as on 21Sep-2021. As per the management, any inorganic growth opportunity would be largely funded by internal accruals. Healthy offtake of the enhanced capacities will remain key to the elevation in profitability and return on capital employed, as well as deleveraging.

India's passenger vehicle industry is showing strong signs of growth driven by changing demographic profile of buyers, higher per capita income and easy availability of finance. Share of alloy wheels is on the rise due to increasing premiumisation. Recovery in CV industry and strong growth in export orders should drive the company's growth. SSWL has strong growth visibility from the export market which has resulted in increased order inflows thereby reducing its dependence on domestic OEM demand. Exports contributed to around 26% of the revenue in Q1FY22 (FY21: 15%; FY20: 14%). Despite firm raw material prices, ramp-up of exports business has led to EBITDA margin of 14.4% in Q1FY22 v/s Q4FY21: 12.3%; Q3FY21: 12.5%. SSWL has invested heavily in recent years to stay ahead of the competitors especially in the alloy wheels segment. The long-standing relationships with OEM manufacturers would benefit the company to keep facing competition.

Valuations…

We expect SSWL's revenue/EBITDA/PAT to grow at 48/59/138% CAGR over FY21-FY23, led by the increased demand from the domestic automobile industry and higher contribution from alloy wheels and export segment. Upgrade in credit rating and repayment of debt would aid in increasing profitability. We expect RoE to improve from 6.8% in FY21 to 26.3% in FY23. The Board has approved split in the face value of the stock from Rs 10 to Rs 5 and the record date for this may be announced shortly. We believe investors can buy the stock in the band of Rs 1710-1740 and add on dips to Rs 1510-1530 band (8.5x FY23E EPS) for a base case fair value of Rs 1877 (10.5x FY23E EPS) and bull case fair value of Rs 2056 (11.5x FY23E EPS) over the next 2 quarters.

Financial Summary...

Particulars (Rs Cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY20	FY21	FY22E	FY23E
Operating Income	678	120	463.8	700	-3.1	1563	1749	3041	3849
EBITDA	98	2	4077.8	86	13.6	171	204	395	512
APAT	51	-38	-234.1	45	14.6	23	49	189	279
Diluted EPS (Rs)	32.7	-24.4	-233.9	28.5	14.6	15.0	31.6	121.3	178.8
RoE (%)						3.4	6.8	22.5	26.3
P/E (x)						114.4	54.5	14.2	9.6
EV/EBITDA (x)						20.4	16.7	8.7	6.4

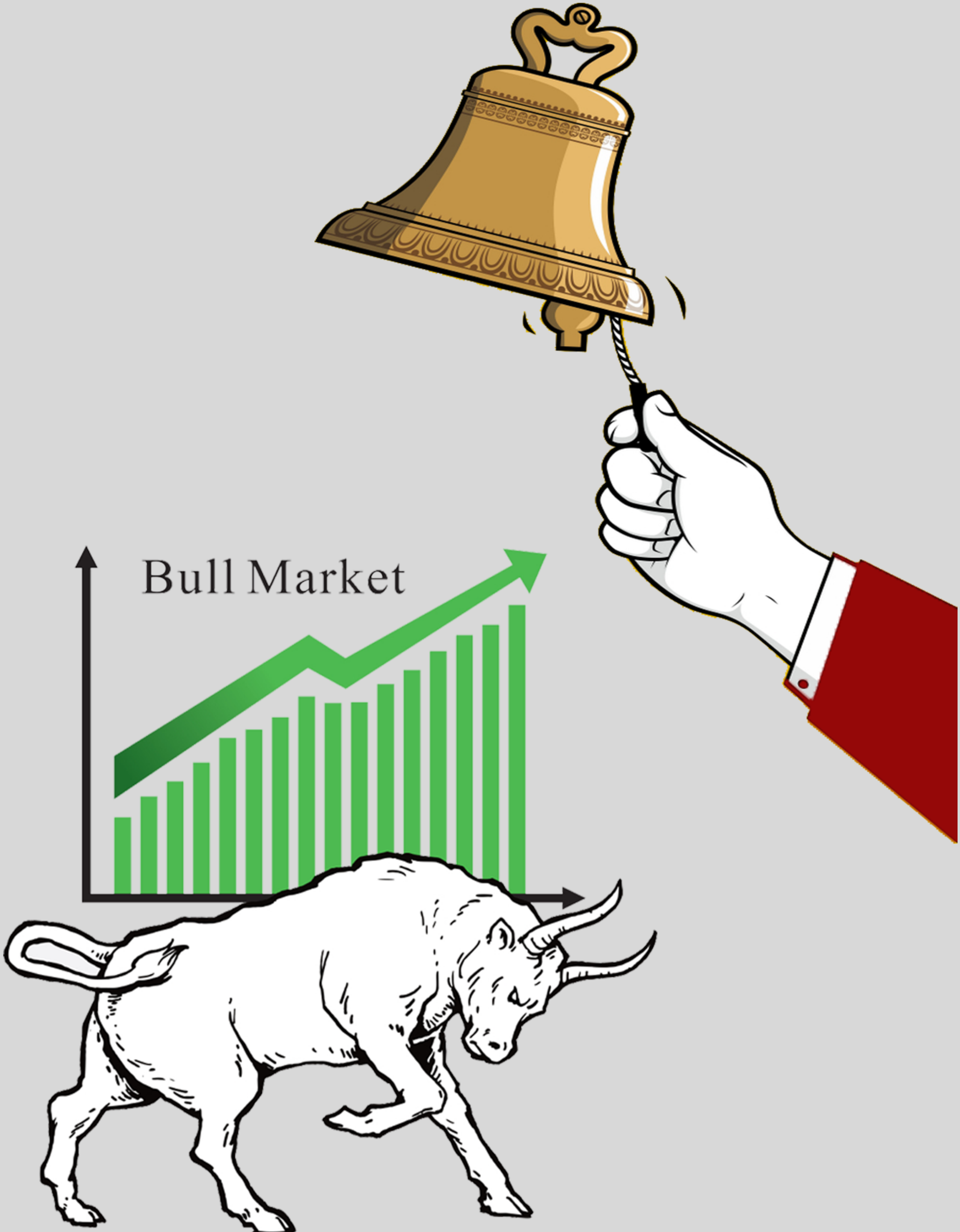
Income Statement...

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	**2041**	**1563**	**1749**	**3041**	**3849**
Growth (%)	**34.4**	**-23.4**	**11.9**	**73.8**	**26.6**
Operating Expenses	1795	1392	1546	2646	3337
EBITDA	**246**	**171**	**204**	**395**	**512**
Growth (%)	**22.8**	**-30.4**	**19.0**	**94.0**	**29.5**
EBITDA Margin (%)	**12.1**	**11.0**	**11.6**	**13.0**	**13.3**
Depreciation	62	72	72	77	82
Other Income	17	22	16	17	19
EBIT	**201**	**121**	**148**	**335**	**449**
Interest expenses	93	89	84	83	77
PBT	**109**	**33**	**64**	**253**	**372**
Tax	27	9	15	63	93
Adj. PAT	**82**	**23**	**49**	**189**	**279**
Growth (%)	**9.7**	**-71.5**	**110.2**	**284.5**	**47.4**
EPS	52.8	15.0	31.6	121.3	178.8

Balance Sheet…

As at March (Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	16	16	16	16	16
Reserves	666	682	734	915	1179
Shareholders' Funds	**682**	**698**	**749**	**931**	**1194**
Minority Interest	0	0	0	0	0
Borrowings	851	898	769	774	649
Net Deferred Taxes	126	154	164	164	164
Total Source of Funds	**1658**	**1750**	**1682**	**1868**	**2007**
APPLICATION OF FUNDS					
Net Block & Goodwill	1329	1307	1259	1378	1369
CWIP	53	85	109	44	35
Investments	0	0	0	0	0
Other Non-Curr. Assets	19	21	57	97	115
Total Non-Current Assets	**1401**	**1413**	**1426**	**1519**	**1520**
Inventories	338	329	496	792	896
Trade Receivables	194	210	257	458	538
Cash & Equivalents	121	92	53	34	64
Other Current Assets	100	135	144	183	232
Total Current Assets	**753**	**766**	**951**	**1467**	**1730**
Trade Payables	257	214	412	667	685
Other Current Liab & Provisions	238	216	283	452	558
Total Current Liabilities	**495**	**429**	**695**	**1118**	**1243**
Net Current Assets	258	337	256	349	487
Total Application of Funds	**1658**	**1750**	**1682**	**1868**	**2007**

This Might Impact Your Investments !!



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Investment options or cryptocurrency, tie-wearing uncles are leading the advice-doling department (of tricks)

Lately, I've been watching some Instagram reels for investment advice. It involves 'finfluencers' - people under-30 who have a social media following, explaining different investment options. One reel, for example, has two women dancing to a Justin Bieber trend, telling me how I can buy US stocks sitting in India. Another one, has a young man in comedic situations with himself (in disguise), chatting about rent vs EMI. There's another finfluencer - a tough word to say out loud while, say, eating popcorn - who gets her dog to bark every time she mentions a stock that's rallying too much. Another one plays sad Mohammed Rafi songs every time a stock does not move.

You can laugh at me and say this is absolute nonsense, and one should listen to more 'grown-up' advice. Yet, if you think about it, what is 'grown-up' advice as we start Covid-'22? Some gent called Vishal or Mohit (or insert your choice of name here) from X Bank coming over to your house wearing a tie, giving you various pdfs of fund houses with various graphs on it, and saying, 'Sir, this is the fund for you. Trust me. I will be there to handhold you through this.'?

And then three weeks later, finding out on Facebook that Vishal has left X Bank to run an Airbnb in Nainital with his fiancee. Vishal posts a photo titled '#blessed' with pine trees behind him, leaving you with ₹X lakh invested in a fund called 'dynamic growth New India aggressive balanced forever advantage fund' or some such, whose value has halved even before Vishal has welcomed his first guest in Nainital.

Or is real wisdom from tie-wearing uncles and strangely hair-sprayed aunties on business news channels sitting between various tickers and graphics - kept on mute - that only play in doctors' waiting rooms, office building and hotel lobbies?

In short, no one knows anything. The future of the markets will be what they will be, and business news anchors with their suits and Bloomingdalebergs, know as much as 'finfluencers' who tell you to invest because their dog barked on Instagram. Which explains why so many business families turn to soothsayers. And which also explains why, through the pandemic, so many young people have turned to apps like Zerodha or Groww or Upstoxx (or insert your crazy playschool name of choice), and are sitting at home not with an Xbox but putting money into TCS or HDFC after watching some finfluencer dance to a Badshah song trend.

Nowhere is this bigger than cryptocurrencies, advertised by Bollywood stars and comedians, both custodians of wise financial planning. Various celebrities have been marketing bitcoin as 'safe and assured,' which just proves, actors will read out any script without understanding a word, as long as they are paid in real coin.

I've been watching a comedian on YouTube have lengthy discussions on bitcoin and blockchain technology and mining. I was so sucked in, like the million others watching, that I walked around shouting words like 'Cardano', 'Solana' and 'Altcoin', till my wife was about to call a doctor. I almost thought this YouTube legend was Warren Buffet. But then I realised he was 22, doing this live stream from his mother's pickle storeroom. Later, he invited another 'expert', an 18-year-old, who explained who explained why dog coins were the future. And he sat between a meme of two types of Japanese dogs.

I was very close to putting in my entire life savings into cryptos, until the Reserve Bank of India slapped me - and the nation - saying this party was over. Much like a Mumbai police sub-inspector showing up at 2 am and telling the drunks to disperse.

You would think that the wise uncles and aunts at RBI want to regulate all this social media crypto finfluencer frolic because they understand the world more. They don't. We are all just wallowing in the dark, hoping a dog meme is more valuable than a 100 rupee note tomorrow. And the only influencer worth anything is time.

For banking stability, look beyond banks

It is mildly comforting to know that banks in India, having withstood the economic ravages of the pandemic, have the wherewithal to handle a rise in sticky loans. Financial ratios are decent and there is adequate capital to absorb possible shocks that could be in store, says the RBI's Financial Stability Report. In other words, the Indian banking sector does not pose a risk to financial stability in the near future. According to RBI's stress test model, gross NPAs of scheduled banks may increase from 6.9% in March 2021 to 8.1% by March 2022 under the baseline scenario, and to 9.5% under severe stress - a smaller rise compared to similar projections in the past.

But the significance once attached to such reports when information in public domain were less, has diminished. Actual NPAs have turned out to be well below the projections spewed out by the RBI model in recent years. (NPAs in September 2021 are down to 6.9% from 7.5% a year ago.) While it's a relief if the real mountain of sticky assets is smaller than what was feared, one is left wondering about the efficacy of such models. What may be more germane are the travails of banks: since the 2008-09 meltdown, banks have suffered from a sustained dip in interest rates, greater compliance cost and asset provisioning rules, and a growing onslaught from fintech firms. Also, reliance on banks for funds has dropped, and the links between fortunes of high-street banks and the overall macroeconomics and the stock market have become tenuous - as reflected in a weakening correlation between Nifty and BankNifty.

The risks to financial stability may lie beyond banks - in intermediaries and outfits not directly supervised by RBI. It's a world where the regulator's job is a lot trickier.

Pricey unity of textile GST rates

The goods and services tax (GST) regime for textiles and footwear will change from January 1. While unifying the rate on fibre, yarn, fabric and apparel is a sound move, removing the inverted duty structure that accumulates unclaimable input tax credits, achieving this by raising rates, is not. The idea should be to lower and converge GST rates, widen the tax base and simplify the tax system. All textile products (except cotton) will attract 12% GST. At present, pieces priced up to ₹1,000 attract 5% GST. Similarly, footwear, irrespective of prices, will attract 12% GST against 5% now. This follows a GST Council decision.

States such as West Bengal and Telangana want the GST Council to reverse the rate hike in textiles, saying it would further hurt the employment-intensive industry that has slowed down due to the pandemic. The other changes include 5% GST on transport services provided through any ecommerce platform. Henceforth, food service aggregators such as Zomato NSE 2.58 % and Swiggy will have to collect tax from the customer and pay it directly to the government, instead of restaurants. Invoice raising too has been shifted to food service aggregators.

These procedural changes would help curb evasion, without putting an extra tax burden on the consumer. The no-input tax credit arrangement for restaurants, though, should end, as it breaks the GST chain and pushes cash into the system. Petro products, besides real estate, electricity and alcohol, must come under GST. This would eliminate the cascade of taxes that automotive fuels bear, making tax set-offs available on inputs across the value chain. Reform should entail having a central rate for the vast majority of goods, a merit rate and a demerit rate. But this requires political will.

View: Why ITC needs to read the tobacco leaves now

After being the butt of a zillion savage internet memes, last Tuesday, ITC NSE 0.95 % decided to talk: For the first time in the 111 history of the coffee-to-cigarette conglomerate, to its institutional shareholders, spelling out what to expect "next." But the narrative of capex and investments in new businesses, of dividends, demergers and derisking is nothing new but like stale smoke in the room.

A good conglomerate is one that constantly evolves. It nurtures new ideas and businesses, divests stale one. A group CEO's primary mandate has to be portfolio balancing. For all his idiosyncrasies, AM Naik, L&T's boss was forced to take hard calls and spun out tech services and the cash guzzling financial services businesses; sold cement and switchgear to bring back the focus on what the company did best: Engineering. Now his successor is building on that foundation. Like L&T, its time for the Rs 74,000 crore colossus that is ITC, also a board managed company, to shake off its ennui.

Investors love men and women who chase audacious ideas. Why else do we idolise Jeff Bezos, who even from his garage dared to be the bookseller to the world or Tesla's boss Elon Musk, who after radically transforming one of the most entrenched global industry is now attempting to capture carbon dioxide from the atmosphere for the production of rocket fuel. Closer home, Deepinder Goyal, Falguni Nayar, Sameer Nigam or Amrish Rau have emerged as entrepreneurial pin ups.

During the first quarter of FY20, after spending $90 billion over the past decade, Mukesh Ambani was staring at sky high liabilities, lower refining and petrochemical margins, slow enterprise rollout and weak average revenue per user for Jio. The usually teflon coated Reliance Industries (RIL) stock got downgraded. End of 2021, on the back of a $44 billion fund raising blitzkrieg, the same investors are lauding Ambani's quest to make RIL's $180 billion balance net debt free; Telecom and retail verticals have emerged market leaders, giving Ambani, its chairman, the leeway "to catalyse" another $200 billion in investment over the next 10 years largely in green energy. Very few in the whole world have successfully managed to pivot the way RIL has from fossil fuels to 4G mobility and new economy. Bernstein Research once described RIL as India's answer to Exxon, AT&T and Amazon all rolled into one. It's clearly becoming the other way around. Still Ambani is restless.

See how the markets have rewarded them. If you had invested in Tesla in 2011, you would have a five-figure return (17328%). In the past decade, investments in RIL have given six times return while ITC shares have gained just 70% even compared to a 270% jump in Sensex in the same 10 year period. And Nestle India has rallied 360%.

For a company that regaled everyone with award winning marketing campaigns, its current communication or outreach is antiquated. The management is struggling to put across any fresh organic thinking that is not incremental. Why else would a business that is such a dominant force in its core business, with $8 billion of reserves,, get relegated to become the cheapest FMCG stock in the country trading at 19 times PE multiples when homegrown Britannia NSE 0.90 % has jumped to an impressive 53 and HUL leapt to 80 during the recent Covid rally before settling at 65.

Tobacco is toxic the world over and Big Tobacco around the world have had to inhale this stink. Philip Morris, makers of Marlboro, took control of a British asthma inhaler maker this year. As smoking falls out of fashion with heightened regulatory scrutiny and tax blows, BAT, that owns almost 30% of ITC, is betting on £1 billion over the next 2 years to roll out 'more lung-friendly' products. ITC has thus far only taken uneasy, baby steps. If R&D is the direct index of a corporation's ambitions, then chairman Sanjiv Puri's team has lots to catch up on. This is where he needs to be transformational. At a time when the Ayurveda wellness industry has spawned into a multi-million dollar enterprise, what's stopping ITC from breathing some fresh air and be future ready?

Over the years, the wise men who ran the company, understood the shifting consumer habits and diversified to derisk, but for the longest time they remained addicted to nicotine. 85% of ITC's profits came from cigarettes in FY21, even as 58% of its sales got generated from non-tobacco verticals. By chasing topline, the company has become a prime candidate of misplaced capital allocation. If even after 20 years, a business generates 11-12% return on capital and 9% EBITDA margins against an industry average of 30% and 13-23%, then perhaps its time for serious introspection.

Fortunately, ITC under Puri is emphasising on buying rather than its traditional obsession to build. With its heft, I would have expected ITC to make a play for cash strapped Eveready whose distribution channel is very similar to that of a cigarette giant. If coffee is in, buy and rebuild distressed Café Coffee Day which still has a national network of stores and institutional sales. Better still invest and work with the upcoming D2C brands to target the millennial audience. Bottomline, rather than spreading so thin, focus on a few brands and build them well.

Admittedly ITC's large quasi state ownership -- with government insurers, Specified Undertaking of Unit Trust of India (SUUTI) owning close to 30% -- has become a value trap, coming in the way from large scale reorganisations, carve outs and spin offs as has been global industry practice. Unless its hotel, tech and non-tobacco FMCG are streamlined into independent businesses, the true value will never get unlocked. If storied conglomerates like Tata, Reliance, Piramals can seek external capital, so can ITC. Finally, to have only one woman chief operating officer (COO) is as baffling as the overwhelming reliance on in-house talent. Time to read the smoke signals.

Thank

You ☺

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