श्री LAKSHMISHREE

Gateway to your Financial Goals

BIG… BULL… BREAKOUT…?

“WISE SPENDING IS PART OF WISE INVESTING AND IT’S NEVER TOO LATE TO START.”

From Managing Director's Desk To Readers

SEBI Seeks To Widen The Price-Sensitive Net For Insider Trading

SEBI has recently proposed yet another deeming provision in insider trading regulations. It seeks to make the information that companies are required to treat as material and disclose under Listing Obligations and Disclosure Regulations (LODR) be deemed price sensitive. The implications are several.

Insiders will not be able to deal in shares till such information is disclosed, and if they do, they would be penalised for insider trading. There would also be a window of closure from the time when the UPSI comes into being till it is properly disclosed, thus effectively debarring most close insiders from dealing. This could create difficulties for some persons, particularly, for example, employees desiring to liquidate some of the shares arising from ESOPs.

But first let us understand the reasons behind SEBI's move, more so the numerous cases where UPSI existed but was not disclosed to the public in time. And in many cases, large profits were made (or losses averted) but in view of a perceived narrowly drafted definition of UPSI, SEBI faced helplessness in taking action.

Among white-collar crimes in securities markets, one that is considered risk-free giving easy gains is insider trading. People who are close to the company's inner operations have access to material developments that may affect the price when known to the public. Thus, they may be tempted to profit (or avoid losses). This is done by dealing in the shares of the company before such material information is shared with the rest of the shareholders and the public generally. That is trading on unpublished price-sensitive information (UPSI).

The challenges to catching such persons are many. The first is detecting that such trading has been done.

The second step is showing that there was UPSI, and this has several steps. It needs to be shown that the information was price sensitive. Also, that that it was unpublished, i.e., not made known to the public in the prescribed manner.

Then, it needs to be shown that the person was an insider and that typically would mean he had access or can be expected to have access to UPSI. Finally, and often the most difficult, is to show that the person who traded, if not the insider himself, had been provided with the UPSI by the insider.

To make things easier for SEBI, there are several deeming provisions. A large section of people who are connected to the company are deemed to be insiders. Several categories of information are deemed to be price sensitive. Price-sensitive information is deemed to be published only if it is disclosed in a particular manner, else it continues to be unpublished.

Earlier, the list of items of information that were deemed to be price-sensitive had a residual category. That essentially referred to those items that were deemed to be material information under Regulation 30 of the LODR Regulations. Thus, effectively, the term UPSI had two components: information that was deemed to be price sensitive under the first part of the definition of UPSI and the residuary part where items of information treated as material under the LODR Regulations.

In 2018, the T K Viswanathan Committee recommended that the definition of UPSI be made more specific and the reference to items treated as material under the LODR Regulations (the Listing Agreement at that time) could be omitted. Accordingly, SEBI accepted this recommendation and dropped this reference.

However, SEBI over the later years observed that there was extensive misuse due to this change. It provided disturbing facts and figures. It pointed out that companies took a narrow and technical view of the revised definition and considered only those items of information that were specifically listed. This is even though in spirit and even in letter, companies and insiders were required to treat all price-sensitive information as covered by the definition.

SEBI found that in many cases, surveillance alerts had shown that insiders seemed to have made substantial profits/avoided losses while price-sensitive information was unpublished. Moreover, SEBI analysed filings made for material developments under the LODR Regulations between January 2021 and September 2022. It noted that in these 21 months, a total of 1099 filings were analysed. Of these, in 227 cases, the prices of the shares had moved by at least 2 percent, even after adjusting for index changes. However, only 18 items, or barely 8 percent of cases showing substantial price movements, were treated as UPSI by the companies. This was hardly a happy position that should be allowed to be continued.

Accordingly, SEBI has proposed that the earlier status be restored and those items that are material as per the company itself for disclosure under the LODR Regulations should also be treated as price-sensitive information for the Regulations relating to insider trading. This, SEBI has explained, will not make the definition too wide. SEBI has noted that in its Board meeting of 29th March 2023, it has already decided that the items that would be treated as material under Regulation 30 of the LODR Regulations would be 'rationalised'.

Essentially, for the purposes of UPSI, what is important is that a minimum cut-off amount would be laid down for deciding whether the development is material or not. This may help companies even otherwise in not being required to disclose relatively minor matters. Since there is already a cut-off point laid down, it would be easier and less burdensome if this updated list is integrated again with the definition of UPSI. This will ensure that there is a longer and more relevant list of developments that would be deemed to be UPSI. Companies would have to not only ensure timely disclosure but also there will be restraint on insiders from dealing shares while such price-sensitive information is unpublished.

This is a proposal with mixed implications. On one hand, it could be argued that SEBI needs to resolve, using legal proceedings, the matter of companies/insiders attempting to take a hyper-technical view of the definition of UPSI. And effectively stop insiders merrily make money by abusing the trust reposed on them and breaking the law. The fight to penalise such offenders would be hard and long but it could arguably be a better approach as a regulator. On other hand, the reality also is that persecuting such cases has a level of uncertainty involved considering that determining what item of information is price sensitive can be subjective. Hence, the proposal of SEBI to enlarge substantially the list of deemed UPSI seems to be a reasonable step, particularly since the list would otherwise be already narrowed due to minimum quantitative benchmarks being laid down.

Companies would not be able to blow hot and cold – on one hand, disclosing the developments as material under the LODR Regulations but then not treating them as UPSI. There may be an unintended fallout of this proposal though. Till today, SEBI suggests that it cannot take companies to task if they neglect to treat information that is price sensitive under the general definition. By adding further to the specific list, it may end up removing even this scope. This is because now, companies and insiders may argue vehemently that only those items that are specifically listed are price sensitive and nothing else. But considering that what may be left out could be rare items, it is possible that there may be significant net gains from the proposed change. Time will tell us whether this proposal if implemented, will cut down insider trading significantly or not.

<u>Salil Shah</u>

Managing Director

Lakshmishree Investments & Securities Pvt. Ltd.

Look What Our Research Analyst Has To Say...

Nifty towards the end of the month has given a breakout of CUP & HANDLE pattern on the daily chart. The index will face major resistance in the zone of 18600-18800 and only and only a breach and sustain above the ATH the index will break free to bluesky zone with an immediate target of 19200. On the flip side if there is any failure around 18600-18800 zone then a correction is likely to trigger and 18000-17700 zone will be tested.

LOGISTICS MAKES THE WORLD GO AROUND

India has jumped six ranks to 38th position among 139 countries on the World Bank's Logistics Performance Index for 2023, the same rank as Turkey, Saudi Arabia, and Portugal, which are much richer countries than India. This is a very positive development because it helps lower the cost of doing business in India. It will help India's exports and make the country a more attractive destination for investment — especially, but not only, in the manufacturing sector. China is still way ahead at 19th position, Malaysia ranks 26th, and Thailand is just a little ahead at 34th. But India has beaten key ASEAN (Association of Southeast Asian Nations) competitors like Indonesia, Vietnam, and the Philippines, with whom we have a free trade agreement on this important ingredient of competitiveness.

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Getting ahead on this World Bank Logistics Performance Index is much more meaningful than going up on the World Bank's Ease of Doing Business Index, where India had jumped many positions over the past 10 years. But that index was badly flawed. It was based on judgements of "experts", not on surveys of real businesses, and it also had a conceptual flaw. It was built on the idea that less regulation is always better but economic theory and common sense tell us that cannot be true. Weakening regulation is what led to the global financial crisis in 2008. The recent failures of banks such as Silicon Valley Bank, Signature, and First Republic are also linked to the weakening regulation of mid-size banks since 2019. Too much regulation is bad but so is too little — so any index built on the idea that less regulation is always better has an underlying design flaw. The World Bank stopped that index not because of these flaws but because it was alleged that China used its influence with the senior World Bank management to "game" the index. The index was very popular with the business community, especially because it did not address environmental or labour regulations. The World Bank is now planning to resurrect a better ease of doing business index. But let's hope it addresses key design flaws in the previous index.

But those problems do not exist with the Logistics Index, which is built on six components: The efficiency of customs, the quality of trade and transport infrastructure, the ease of arranging competitively priced shipments, the quality and competence of logistics services, the ability to track consignments, and, lastly, timeliness. It measures a key component of the cost of doing business. India's rank on the Logistics Performance Index has gone up and down and now up again. It was 47th in 2010, dropped to 54th by 2014, improved to 38th in 2016, fell to 44th in 2018, and has now gone back to 38th. These rankings are not always easily comparable over time as country numbers change. In addition to ranks come scores on a scale from 1 (low) to 5 (high). Singapore scored the highest in 2023 with 4.3 and Germany was on top in 2018 with 4.2. India's score was 3.08 in 2012, had improved to 3.42 in 2016, dropped to 3.18 in 2018, and is now back to 3.4. India did well in 2016, and then slacked off and has now recovered on this index.

Going forward, India must not only find ways to keep its score but improve further on it. This is important because our competitors are all trying to improve. The Philippines, for example, jumped 17 ranks from 60th (with a score of 2.9) to 43rd in 2023 (with 3.3, just below India's), and scores better than India on timeliness. Thailand is slightly ahead of India because of better scores on two components — customs, and trade and transport infrastructure. As India pours money into improving infrastructure, it must also focus on the efficiency of its customs system. India's customs score improved from 2.70 in 2010 to 3.17 in 2016 but has since fallen to 3.0, something that needs attention. The country with the best customs efficiency in the world is Singapore and there may be an advantage in getting some technical assistance from the city-state to improve the efficiency of our customs service. Lee Kuan Yew, the first Prime Minister of Singapore, focused as much on improving customs and processes as on bettering physical infrastructure. An improvement in our score for customs efficiency will have huge benefits.

In addition to the components of logistics performance, we must also focus on the cost of fuel, electricity, and freight. Before the recent depreciation of the rupee, from around ~75 to the dollar to about ~82 to the dollar, diesel prices were much higher than in many East Asian countries. Even after the depreciation of the rupee, diesel prices remain 10 per cent higher than in China. Electricity prices are cheaper for consumers than for producers, in the case of whom they remain higher than those in all our competing nations. India's rail system is also showing improvement but rail freight rates for goods, which are used to cross-subsidise passenger fares, also need a review. India's rail freight, according to the CPCS1 at 10.15 US cents per ton mile in 2021, was much higher than China's 3.51 cents per ton mile or the US's at 4.16 cents per ton mile, and even much of the EU, where it averages about 8 cents per ton mile. Even with the recent rupee depreciation of 10 per cent, that would still leave Indian rail freight rates among the highest in the world.

India is clearly on the move and the focus of the government to improve our logistics is bearing fruit, but this is a battle that must be fought continuously and smartly. "Logistics is not an expense, it's an investment," said business coach Michael Allosso. This is the kind of reforms that lay the foundations for sustained growth to become an advanced economy.

Anshul Jain

Research Analyst

Stocks To Watch

1. MAHINDRA & MAHINDRA

Mahindra & Mahindra Ltd. manufactures different range of automotive vehicles, agricultural tractors, implements and industrial engines. It is the flagship company of the Mahindra group, operating in the global tractor industry and the Indian utility vehicles market.

The company's portfolio comprises of a wide spectrum of vehicles from two wheelers to heavy trucks, SUVs to school buses. Its services include maintenance and repairs, customization, providing spares, and manufacturing and engineering.

The company was founded by Jagdish Chandra Mahindra and Kailash Chandra Mahindra on October 2, 1945 and is headquartered in Mumbai, India. The current chairman of M&M is Anand Mahindra who is the grandson of J.C. Mahindra.

Particulars

Bloomberg	MM IN
Market Capitalisation	₹ 1,65,141 Cr
52 Week Range H/L	1,594/ 923
Equity Capital	₹ 557 Cr
Current Shares O/S (mn)	1,243.5
Daily Vol. (3M NSE Avg.)	2,449,644

Shareholding Pattern

In (%)	June -22	Sep-22	Dec-22	Mar-23
Promoter	19.45	19.38	19.39	19.37
FII	37.94	38.27	39.16	39.24
DII	31.48	35.36	34.3	33.87
Other	11.13	6.99	7.15	7.52

Income Statement

Y/E March (₹ Mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Net Sales	**4,46,299**	**5,77,869**	**8,49,603**	**9,66,470**	**10,73,265**
% Growth	-0.5	29.5	47.0	13.8	11.1
Raw Material	3,01,766	4,25,604	6,45,582	7,29,685	8,04,949
Gross Margin (%)	**32.4**	**26.3**	**24.0**	**24.5**	**25.0**
Staff Costs	32,520	33,296	36,499	41,558	46,150
Other Expenses	42,439	48,695	63,098	67,653	75,129
Total Expenses	3,76,724	5,07,595	7,45,179	8,38,896	9,26,227
EBITDA	**69,575**	**70,275**	**1,04,424**	**1,27,574**	**1,47,037**
% Growth	9.6	1.0	48.6	22.2	15.3
EBITDA Margin (%)	**15.6**	**12.2**	**12.3**	**13.2**	**13.7**
Other Income	11,995	20,538	25,452	29,269	31,611
Interest Costs	3,963	2,262	2,728	1,881	1,393
Depreciation	23,699	24,984	31,545	31,357	29,017
Profit Before Tax (before exceptional items)	53,907	63,533	95,603	1,23,606	1,48,238
Exceptional Items	-30,873	-2,087	-14,295	-14,295	-14,295
Tax	13,193	12,781	15,821	27,328	33,486
Profit After Tax	9,842	48,699	65,486	81,983	1,00,457
Adj. Profit After Tax	**40,714**	**50,785**	**79,782**	**96,278**	**1,14,753**
% Growth	**14.7**	**24.7**	**57.1**	**20.7**	**19.2**
Adj. PAT Margin (%)	**9.1**	**8.8**	**9.4**	**10.0**	**10.7**
EPS (Rs)	34.1	42.5	66.6	80.6	96.0
% Growth	14.7	24.7	56.8	20.9	19.2
DPS (Rs)	8.8	11.6	16.3	20.4	24.6
Payout (incl. div. tax) (%)	29.1	27.2	24.3	25.3	25.6

Balance Sheet

Y/E March (₹ Mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
Share Capital	5,973	5,983	5,991	5,991	5,991
Reserves	3,47,239	3,75,998	4,27,577	4,85,182	5,56,243
Net Worth	3,53,212	3,81,981	4,33,567	4,91,173	5,62,243
Total Debt	72,143	64,978	46,437	46,437	46,437
Deferred Tax Liability	14,497	17,622	14,703	14,703	14,703
Capital Employed	**4,39,851**	**4,64,580**	**4,94,708**	**5,52,313**	**6,23,373**
Net Block	1,20,070	1,49,040	1,69,762	1,94,762	2,19,762
Capital Work-in-progress	61,255	52,627	27,846	21,000	15,000
Investments	2,22,862	2,42,045	2,70,871	3,05,871	3,30,871
Inventories	47,827	59,704	88,814	1,01,030	1,12,194
Debtors	22,012	30,386	40,417	45,977	51,057
Cash	62,555	36,506	44,818	55,068	87,426
Loans and Advances	19,399	22,307	23,544	23,544	23,544
Other Current Assets	63,130	73,451	91,727	1,00,899	1,10,989
Total Current Assets	2,14,922	2,22,353	2,89,319	3,26,519	3,85,211
Creditors	1,06,438	1,29,701	1,71,456	1,95,041	2,16,593
Other current Liabilities & Provisions	72,821	71,784	91,635	1,00,798	1,10,878
Total Current Liabilities	1,79,258	2,01,485	2,63,091	2,95,839	3,27,471
Net Current Assets	35,664	20,868	26,229	30,680	57,741
Application of Funds	**4,39,851**	**4,64,580**	**4,94,707**	**5,52,313**	**6,23,373**

Cash Flow Statement

Y/E March (₹ Mn)	FY 21	FY 22	FY 23	FY 24E	FY 25E
OP / (Loss) Before Tax	45,876	54,291	72,879	96,217	1,18,021
Depreciation & Amortization	23,699	24,984	31,545	31,357	29,017
Other Income	11,995	20,538	25,452	29,269	31,611
(Inc) / Dec In Working Capital	32,992	-11,253	2,952	5,799	5,298
Direct Taxes Paid	-13,764	-9,656	-18,740	-27,328	-33,486
Cash Flow From Operations Before EO	1,00,797	69,903	1,14,087	1,35,315	1,50,460
Extraordinary (EO) Items	-30,873	-2,087	-14,295	-14,295	-14,295
Cash Flow From Operations After EO	**69,925**	**67,816**	**99,791**	**1,21,019**	**1,36,165**
Capital Expenditure (-)	-35,931	-45,326	-27,486	-49,510	-48,017
Net Cash After Capex	**33,994**	**22,490**	**72,306**	**71,509**	**88,148**
Other Investing Activities	-47,533	-19,183	-28,826	-35,000	-25,000
Dividends Paid (-)	-10,456	-13,802	-19,419	-24,378	-29,397
Inc. / (Dec.) In Total Borrowings	36,650	-9,427	-21,268	-1,881	-1,393
Others	7,535	-6,128	5,519	0	0
Cash From Financial Activities	**33,729**	**-29,357**	**-35,168**	**-26,258**	**-30,790**
Opening Cash Balance	42,365	62,555	36,506	44,818	55,068
Closing Cash Balance	62,555	36,505	44,817	55,068	87,426
Change In Cash Balance	20,190	-26,049	8,312	10,251	32,358

Our Take...

M&M reported the highest-ever volume of 14.7k units in electric 3W with a market share at 67% as on 4QFY23. In the FES segment, market share stood at 40.7% (+120bps YoY). The SUV segment lost revenue market share by 100bps in 4QFY23 after having a good run from 1QFY23 to 3QFY23. Mahindra & Mahindra also added 120 new dealers in the FES segment in FY23. On the EV side, the company added 130 touch points in urban areas and 220 touch points in rural areas. The company is continuously investing in network expansion besides ensuring that the dealers don't over-invest in infrastructure.

Mahindra & Mahindra has received a good response for its recently launched electric variant of the XUV400 with order bookings of more than 20,000 units. The management aims to ramp up production of the XUV400 gradually to 1,000 units/month with an annual production of 18,000 units. The company has also received 20,000 bookings for its electric SUV – the XUV400. Open bookings as of May'23 stood at 292,000 units.

Outlook & Valuation

We value M&M on SOTP basis with the core business valued at ~16x FY25E core EPS and other listed entities valued at the current market value to arrive at a TP of Rs1,558. We remain positive on M&M due to the following catalysts: (1) Strengthening leadership in the SUV segment (2) Market share gains in UV and FES segments (3) Margin expansion and (4) Prudent capital allocation driving ROE improvement.

The key risks for this stock are:

(1) Slowdown in Tractor volume

(2) Persistent supply chain issues

(3) Inability to fulfill demand due to capacity constraints.

2. EMAMI

Emami Ltd. is the flagship company of Emami Group. Emami Ltd., founded in 1974 by Mr. RS Agarwal and Mr. RS Goenka, is one of India's leading FMCG companies engaged in manufacturing & marketing of personal care & healthcare products. With around 300 diverse products, Emami's portfolio includes trusted power brands like BoroPlus, Navratna, Fair and Handsome, Zandu Balm, Mentho Plus Balm, Sona Chandi Chyawanprash and new brands like Emami 7 Oils in One and HE Deodorant.

In 2008, Emami Limited acquired Zandu Pharmaceuticals Ltd followed by the business of Kesh King in 2015, two of the biggest acquisitions in the history of FMCG industry in India. Emami's products are available in 4.5 million + retail outlets through its network of 2800 + distributors across India. Its global footprint spans over 60 countries.

Market Data

Market Cap.	Rs 17,675 Cr.
Bloomberg	HMN IN
52 Week Range H/L	Rs 525 / 341
Shares Outstanding	440m
3-M Avg Daily Value	Rs 155.52m
Equity Capital	Rs 44.1 Cr.

Shareholding Pattern

In (%)	Mar-23	Dec-22	Sep-22
Promoter	54.27	54.27	54.27
FIIs	11.01	11.14	11.25
DIIs	30.93	30.83	30.74
Others	3.79	3.76	3.74

Income Statement

Y/E March (Rs Mn)	FY 22	FY 23	FY 24E	FY 25E
Net Revenues	**31,920**	**34,057**	**37,193**	**40,908**
YoY Gr. (%)	10.8	6.7	9.2	10.0
Cost Of Goods Sold	10,783	12,014	12,521	13,566
Gross Profit	21,138	22,044	24,672	27,343
Margin (%)	66.2	64.7	66.3	66.8
Employee Cost	3,178	3,678	4,082	4,490
Other Expenses	937	4,132	1,438	1,562
EBITDA	**9,520**	**8,628**	**10,071**	**11,428**
YoY Gr. (%)	7.9	-9.4	16.7	13.5
Margin (%)	29.8	25.3	27.1	27.9
Depreciation & Amortization	3,348	2473	1767	1812
EBIT	**6,172**	**6,155**	**8,303**	**9,616**
Margin (%)	19.3	18.1	22.3	23.5
Net Interest	51	74	52	52
Other Income	953	689	373	488
Profit Before Tax	**7,074**	**3,771**	**8,625**	**10,052**
Margin (%)	22.2	19.9	23.2	24.6
Total Tax	**-1,487**	**421**	**1,078**	**1,558**
Effective Tax Rate (%)	-21.0	6.2	12.5	15.5
Profit After Tax	**8,560**	**6,349**	**7,547**	**8,494**
Minority Interest	23	-123	28	31
Share Profit From Associate	-146	-75	-	-
Adjusted PAT	**10,797**	**6,397**	**7,547**	**8,494**
YoY Gr. (%)	61.5	-40.8	21.4	17.3
Margin (%)	33.8	18.8	20.9	22.3
Extra Ord. Income/ (Exp)	-2,406	-	-250	-649
Reported PAT	**8,391**	**6,397**	**7,519**	**8,463**
YoY Gr. (%)	84.7	-23.8	17.5	12.6
Margin (%)	26.3	18.8	20.2	20.7
Other Comprehensive Income	306	-544	-	-
Total Comprehensive Income	8,697	5,853	7,519	8,463
Equity Shares O/s (m)	**441**	**441**	**441**	**441**
EPS (Rs)	**24.5**	**14.5**	**17.6**	**20.7**

Balance Sheet

Y/E March (Rs Mn)	FY 22	FY 23	FY 24E	FY 25E
Non Current Assets				
Gross Block	**34,932**	**35,769**	**37,132**	**38,495**
Tangibles	12,148	12,457	13,721	14,984
Intangibles	22,785	23,311	23,411	23,511
Acc: Dep./ Amortization	**21,933**	**24,182**	**25,949**	**27,761**
Tangibles	4,749	5,623	6,582	7,626
Intangibles	17,184	18,559	19,367	20,135
Net Fixed Assets	**12,999**	**11,587**	**11,183**	**10,734**
Tangibles	7,398	6,835	7,139	7,358
Intangibles	5,601	4,752	4,044	3,376
Capital Work In Progress	31	63	63	63
Goodwill	242	682	682	682
Non-Current Investments	2,729	1,861	1,949	1,964
Net Deferred Tax Assets	2,763	3,502	-148	-163
Other Non Current Assets	1,009	401	1,151	1,300
Current Assets				
Investments	1,257	2,513	3,770	5,655
Inventories	3,576	3,280	3,915	4,286
Trade Receivables	3,209	4,145	2,547	2,802
Cash & Bank Balance	298	468	9,925	4,77,792
Other Current Assets	1,884	1,680	2,046	2,250
Total Assets	**30,566**	**31,901**	**38,076**	**5,08,458**
Equity				
Equity Share Capital	441	441	441	441
Other Equity	20,324	22,586	28,466	32,026
Total Networth	**20,766**	**23,027**	**28,907**	**32,467**
Non Current Liabilities				
Provisions	252	277	305	335
Other Non Current Liabilities	179	161	204	255
Current Liabilities				
ST Debt / Current Of LT Debt	2,637	736	736	736
Trade Payables	4,087	4,163	4,236	4,70,605
Other Current Liabilities	2,424	2,333	3,285	3,633
Total Equity & Liabilities	**30,566**	**31,091**	**38,076**	**5,08,458**

Cash Flow Statement

Y/E March (₹ m)	FY 22	FY 23	FY 24E	FY 25E
PBT	**7,078**	**6,888**	**8,625**	**10,052**
Add. Depreciation	3,245	2,249	1,767	1,812
Add. Interest	51	101	52	52
Less Financial Other Income	953	689	373	488
Add. Other	-869	-535	-295	-408
Op. Profit Before WC Changes	9,504	8,703	10,148	11,508
Net Changes– WC	-4726	1,282	4,503	4,65,803
Direct Tax	1,487	-393	-1,078	-1,558
Net Cash From Op. Activities	**6,265**	**7,029**	**13,574**	**4,75,753**
Capital Expenditure	-5,332	-1,296	-1,437	-1,423
Interest / Dividend Income	861	510	267	377
Others	-968	832	-	-
Net Cash From Invt. Activities	**-5,439**	**46**	**-1,170**	**-1,046**
Issue Of Share Cap./ Premium	-1,875	-2,322	2,331	-50
Debt Changes	1,718	-1,901	-	-
Dividend Paid	-3,556	-1,765	-3,970	-4,853
Interest Paid	-51	-101	-52	-52
Others	-	-	-	-
Net Cash From Fin. Activities	**-3,764**	**-6,088**	**-1,690**	**-4,954**
Net Change In Cash	**-2,938**	**986**	**10,714**	**4,69,753**
Free Cash Flow	933	5,733	12,137	4,74,330

Our Take...

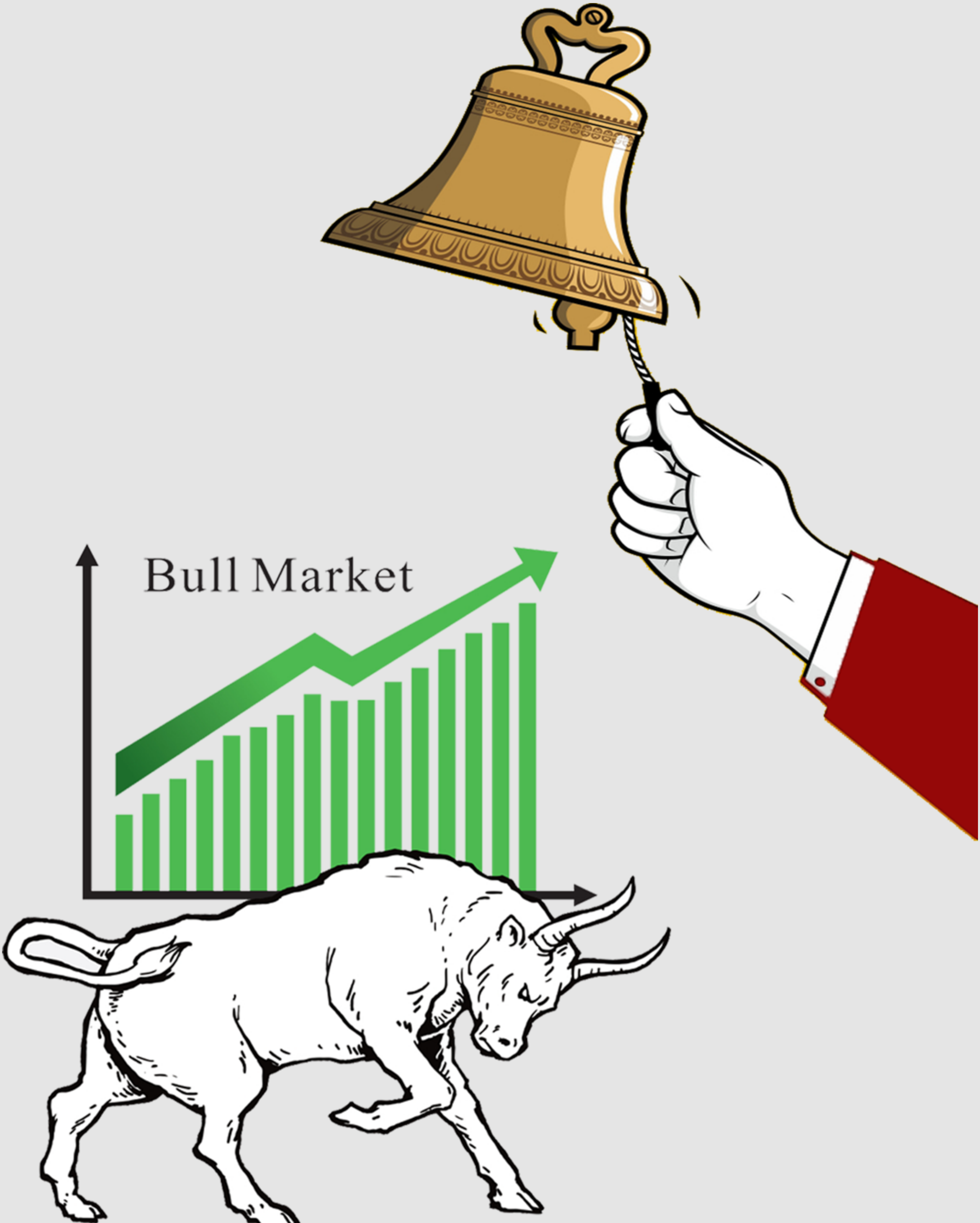
Revenues grew by 8.8% YoY to Rs8.4bn (PLe: Rs8.0bn). Gross margins expanded by 59bps YoY to 63.1% (PLe: 61.7%). EBITDA grew by 21.9% YoY to Rs2bn (PLe: Rs1.8bn); Margins expanded by 256bps YoY to 23.9% (PLe:22.3%). Ad-spends were down 13% YoY. Adj PAT declined by 60% YoY to Rs1.4bn (PLe: Rs 1.0bn) due to MAT credit adjustment of Rs2880.9mn in 4Q22. Growth across segments: Male grooming: 29%, Kesh King: 1%, Navratna: -3%, Pain Management: -9%, Health Care: -13% and Boroplus: - 25%. Channels: MT and E-commerce posted 18% & 64% growth respectively. E-commerce contribution to domestic sales at 9.3% (+400bps YoY) in FY23.

Outlook & Valuation

We increase our EPS estimates for FY24/FY25 by 3.4%/6.5% which factors in the impact of easing raw material inflation, pickup in rural demand across categories (ex of summer portfolio) and increased ad spends behind core brands. 4Q results saw volume growth of 2% while summer portfolio was impacted due to unseasonal rains across India. Key categories like Pain Management and Health Care are expected to grow (after 2 years of COVID numbers in base) in FY24. Input cost pressures have come off, which gives promise for demand in upcoming quarters.

Emami is investing for the future with 1) new launches in existing categories like Boroplus, Zandu and new product launches in D2C 2) investment in D2C businesses and Modern Trade 3) increase in direct town coverage to 60k (from 52k) by FY24 and 4) increasing ad-spend to gain market share. We estimate a 19.4% PAT CAGR over FY23-25. We value the stock at 25x Mar25 EPS and assign a value of Rs517/share.

This May Impact Your Investments!!



श्री LAKSHMISHREE
Gateway to your Financial Goals

India's Electronic Manufacturing: The Big Picture

India's manufacturing sector has too often flattered only to deceive. Despite the big potential domestic market and the occasional big investments by global giants, the share of manufacturing in the Indian economy has remained stuck at around 17 percent – lower than the 25 percent share by 2020 as originally envisaged in Make in India. Indeed, the timeline for manufacturing's share of the Indian economy to reach the target of 25 percent has now been pushed back to 2025 – and even that looks ambitious.

In all this, there has been one area that has been a cause of cheer lately – electronics manufacturing. Electronics – or more specifically the mobile phone manufacturing – has seen some big investments as well as major milestones. South Korea's Samsung and the Apple from the US are both manufacturing a large number of their mobiles in the country. Samsung has shown its willingness to invest heavily quite early and India is its largest production base for mobile phones now. Apple's phones started being manufactured in India through its contract manufacturer and has shifted more of its production to India, including high end ones. There is chatter about Apple tripling its production of mobile phones in India over the next five years. India is now the second biggest mobile phone manufacturer in the world.

The electronics story is not restricted to domestic markets. Electronic exports have been powering India's merchandise exports in recent years, having overtaken textiles. Electronic exports today clock over $24 billion having crossed textiles to become the sixth biggest export commodity segment, overtaking readymade garments. Mobile phone exports are estimated to be almost $11 billion by now.

These are significant achievements and should be celebrated. But the celebrations should not make policy makers miss the bigger picture. Despite the progress, the Indian electronics and manufacturing story comes with multiple caveats. Much of the mobile phone manufacturing taking place in the country is assembly – and the components are actually manufactured in China, Taiwan or other countries. India's electronics manufacturing and exports have been powered by imports from China which has shot up. And despite the US decision to impose a punitive 25 percent duty from key imports from China – which led to a sharp drop in electronics exports by that country to the US – India did not gain as much as Vietnam, Malaysia, Taiwan or Mexico did. India's electronics exports share to other developed countries also lags far behind Taiwan, Vietnam and others. The China plus strategy, India's demographic advantages and the size of its domestic markets does not make for an automatic success in electronics manufacturing.

India has made a good start in electronics manufacturing (and exports) but unless the union government works closely together with state governments – some of which are administered by political parties sharply in opposition with the BJP-led union government – India could well remain an also-ran in the electronics manufacturing race. While the giant Samsung factory is in Uttar Pradesh, which also is administered by the BJP, other big mobile manufacturing capacities are in the southern states, none of which have the BJP as part of their state governments.

Indian manufacturing has suffered from multiple problems over the years. The biggest ones being higher cost of power, lower productivity of manpower, land acquisition problems, higher taxes, bureaucratic delays and logistical problems that make the country less competitive than rivals in East Asia. The Congress-led UPA II government's policy paralysis and the current BJP-led NDA government's policy flip flops have been additional burdens for global manufacturing companies that prefer long term stable policies and tax regimes.

For India to become a major manufacturer in electronics, it needs to remember that the country has to be good in the entire ecosystem – which includes manufacturing of components, chip sub-assemblies, lenses, memory and others – and not just in assembly. It does not help the Aatmanirbhar cause much if India becomes the biggest assembler of mobile phones but imports the bulk of the assembled phone's innards from China, Taiwan, South Korea or Vietnam.

To build the complete ecosystem is also not something either the union government or the state government can do on its own. The union government's powers of giving incentives such as PLI as well as its control over export and import duties and corporate tax rates allow it to ease the way. It also has a significant role in boosting logistic infrastructure – including highways and ports – which can reduce the logistic cost disadvantages that Indian industry has often suffered from.

On the other hand, land acquisition, labour regulations, access to water and electricity at competitive rates and local level bureaucracy are things that fall in the court of the state government. Tamil Nadu has attracted manufacturing investments no matter which party was in power because successive governments have made a concerted effort to do so. Some other states have often suffered because each government's policies have overturned the previous government's initiatives.

The union government has already done many things right – including the PLI for the electronics sector. Its focus on initiating chip manufacturing – while not a factor in the next five years – could pay long term dividends. Its focus on logistics infrastructure is already showing some results. On the other hand, its protectionism in terms of duties and often flip flops in even small policies has been irritants.

A few state governments – such as Tamil Nadu, Andhra Pradesh, Uttar Pradesh and Haryana have made the right noises and also gone out of the way to remove irritants for big investors. They need to do the same for SMEs though – because no big manufacturer can succeed if the ecosystem which supports it, including the SMEs, also flourishes.

Most important, policymakers need to understand that manufacturing success is a long game. And India's competitors in manufacturing have often focused on creating an environment that works well. Too often, Indian governments have focused on the immediate term – and not the long term. That thinking needs to go.

Banking Is Slowly Getting Narrower — And Better

The US economy is now closer than it has ever been to realising one of the more radical visions in the finance industry. Slowly but surely, through evolution rather than policy dictate, America is relying less on traditional banks — part of a reform known as "narrow banking."

The basic idea is to separate lending and deposits: The banking system would hold very safe assets, such as government bonds, thereby limiting the risks from bank insolvency and bank runs, as well as the moral hazard from deposit insurance. Loans would be made by commercial credit lenders and other non-bank sources. Better maturity matching on the loan side would make the economy more resilient.

That's mostly for the better, but the narrow banking model has long been plagued by two major problems. First, there have never been enough safe assets to satisfy the demands of depositors. Second, excessive investment in government securities tends to crowd out private investment. The rise of narrow banking can in part be explained by the mitigation of both these issues.

Unfortunately, the increased supply of US debt is mostly due to its deteriorating fiscal position. Currently the total stock of US government securities outstanding is a staggering $24.3 trillion, though not all of that is short term. The bright side is that asset holders have a greater number and variety of safe options.

The US is still not close to a point at which Treasury bills could serve as assets and liabilities for the entire banking system. Bank deposits amounted to about $17.5 trillion in March 2023, and government securities are needed for many purposes, such as fulfilling portfolio demand abroad and as collateral at clearinghouses.

Nonetheless, there is an ongoing shift of funds out of private banks and into money market funds. Much of the change comes from fears about the solvency of regional banks and uncertainty about how far deposit insurance guarantees will extend. Money-market funds are a safe bet, and they can be used to write checks. So at the margin there is more narrow banking, even though narrow banking is unlikely ever to swallow the entire financial system.

Another factor in favor of the growth of narrow banking is that the current system of US deposit insurance appears less and less workable. In some regional banks, over 90 percent of the held deposits are above the Federal Deposit Insurance Corp limit. Yet when the value of those deposits comes under question, the FDIC (often in conjunction with the Federal Reserve and the Treasury Department) finds itself stepping in and guaranteeing those deposits anyway, for fear of a bank run.

When all deposits are de facto guaranteed, a bank's incentive to take risk increases. Perhaps today this dynamic is at a breaking point, and so a marginal increase in narrow banking could be a way of injecting more safety into the payments system.

The shifting of private funds into Treasury bills could be problematic if that meant credit to the private sector was shrinking. But the rise of private equity and other forms of non-bank finance has made that less of a concern. While private equity growth has slowed since the second half of 2022, it has been on a steady rise since the financial crisis.

Private equity allows many new ventures to be financed, and a run on private equity firms is difficult to pull off, since they are not funding themselves by issuing liquid demand deposits. A private equity venture has a much greater ability to withstand swings in the market. By one metric, private equity measures at almost $12 trillion in value as of mid-2022 — another sign of the US economy advancing in its tools of financial intermediation.

These are not pure market developments, as they are partly a response to the growing regulatory burden on banks, most of all capital requirements. Again, the current regulatory dynamic is not entirely stable. Unstable banks do create trouble, and in return higher legal and regulatory burdens are placed on them, thereby diminishing their profitability. The cycle continues, and implementing tougher regulations hastens the changes rather than halting them.

The marginal switch into more narrow banking is itself an imperfect alternative, as non-bank lenders are not riskless (nor, these days, are government securities). Nevertheless the rise of narrow banking is a reality, and while we should recognize its weaknesses, we should not lose sight of its considerable virtues.

Expected Credit Loss Provisioning Could Disrupt The PSU Bank Exuberance

The profitability joyride of India's public sector banks on the back of a dramatic improvement in asset quality will face a tough test when lenders are asked to adhere to a new stringent model for assessing credit risk of loans and provide for the same. The expected credit loss (ECL) model for identifying and providing for credit risk will increase provisioning requirements for all banks, but most for public sector lenders.

In January this year, the RBI put out a discussion paper proposing that banks migrate to expected credit loss (ECL) model to provide for dodgy loans under the International Financial Reporting Standards (IFRS). Most analysts in the market expect the central bank to make lenders follow the new rules starting April 2025 given that the balance sheet of most banks is in the pink of health. Indeed, the banking regulator has no excuses left to keep banks from shifting to the new rules when non-bank peers have already adopted the ECL regime since 2019 now.

Under ECL, banks will require to gauge the credit risk of the borrower and make anticipatory provisioning before a default has occurred. This contrasts with the current rules under which banks provide against a loan only after the borrower has defaulted on payment. The provisioning progressively increases as the bad loan ages. But ECL would need banks to assess the maximum impairment possible and provide for the same upfront.

There is no doubt that ECL is a better way to fortify the balance sheet and have insurance against defaults. As history has shown, even big companies with formidable balance sheets can fail and a large exposure to such companies makes banks vulnerable. Also, the time for implementation of the norms is apt now since banks would be able and willing to make provisions necessary under the norms. Indeed, some banks have offered a peek into the extent of provisions they would be making when the adopt ECL.

The flipside of ECL adoption is the hit on profitability and capital during good times. Public sector banks have had a stellar two years of profitability now, reflected in the optimism surrounding their valuations in the market. Much of the profitability boost has come simply from a sharp drop in provisioning rather than a surge in core revenues. To be sure, core interest income and business growth have contributed to the bottomline too. Even so, the driver of net profit increases has been lower provisioning. The impact on both return on assets and return on equity have been positive, prompting analysts to increase their estimates.

All this would be put to test when ECL norms are mandated for banks. Analysts at Morgan Stanley believe that 1.0-2.5 percent of public sector banks' loans would be impacted under ECL norms as things stand today. Canara Bank and Punjab National Bank would bear the brunt of the norms more than others, according to them.

What works against public sector banks? After all, even private sector lenders had faced the bad loan cycle albeit at a smaller scale. The pandemic increased the stock of restructured loans for both private and public sector lenders.

Historic performance goes against public sector banks. Since the perceived default probabilities have increased over the past decade owing to the bad loan cycle, ECL provisions would be significant. Government owned lenders have a larger pile of restructured loans compared with private sector peers. Under ECL, these loans would need to be adequately provided for.

There is flexibility for banks to individually assess credit risk. Some lenders may choose to be conservative while others may be more liberal. The same borrower can be assessed and therefore provided for differently by different banks. That said, the regulator will prescribe a minimum floor for provisioning. Also, banks would prefer to err on caution and provide if they have learnt from their previous experience.

Private sector lenders have contingency provisions that reduce their need to provide more under ECL should the norms come into play. This cushion is not available for public sector banks with most of them not holding contingency provisions.

The RBI has proposed adoption of the norms by 2025 which leaves banks a year to prepare for it. Although the final guidelines are yet to be released, the central bank is likely to stick to the discussion paper proposals. The Nifty PSU Bank index has dropped roughly 10 percent since the discussion paper was released, grossly underperforming the broad Nifty. This has been despite PSU banks reporting robust quarterly earnings. Investors are anticipating pain down the line primarily from regulatory changes and also from moderation in profitability. The PSU bank exuberance train may just come to a halt soon.

With UK Parent Snub, Vodafone Idea's Position As Precarious As Ever

Vodafone Idea's investors have been waiting for a rescue plan for a long time only to be snubbed time and again. The stock dropped 4 percent on Wednesday after its co-owner Vodafone Group Plc reiterated its zero additional financial commitment policy to Vodafone Idea.

The UK based co-promoter is facing its own problem of suboptimal financial performance and is scripting a revival plan under its new chief executive officer Margherita Della Valle. It plans to rebalance the organisation towards business clients, rationalise costs and improve customer experience. Her predecessor Nick Read tried to lift the company's performance but was unable to make good progress. The focus this time seems to be on execution.

"We will change the level of ambition, speed and decisiveness of execution," the Vodafone Group said in an investor update.

Vodafone Idea should also emulate part of the strategy, especially the execution part. Delay in network investments is costing the Vodafone Idea dearly. It is losing customers and is falling behind competitors in the private sector, the key players in the telecom industry now.

Take the case of 5G services. While Reliance Jio and Bharti Airtel have launched 5G services, Vodafone Idea is awaiting closure of fundraising to launch the new generation services. The delay in network upgradation is leading to customer churn. In February, till when the latest sector data is available, Vodafone Idea lost the highest number of mobile broadband (4G) customers in more than a year.

Analysts fear customer churn may continue. As per Jefferies India, mobile number portability requests in the sector were elevated in February. With Jio and Airtel aggressively wooing new consumers, Vodafone Idea may continue to feel the heat. "We expect Bharti Airtel and Reliance Jio's market share gains to accelerate at Vodafone Idea's (Vi) expense, especially among premium subscribers, driven by pan-India 5G rollouts and Vi's cash constraints, long-delayed fund-raise and uncertainty on 5G launch," analysts at Kotak Institutional Equities said in a note.

Much of Vodafone Idea's future revival is predicated on large fund infusion by existing and prospective investors. Still, many doubt if fund infusion alone will resolve Vodafone Idea's problems or secure its future.

As the current moratorium on payment of spectrum payment dues and adjusted gross revenue payments ends, Vodafone Idea will have to cough-up as much as Rs 40,000 crore per annum to the government alone from FY26. As per analysts, the amount is much higher than Vodafone Idea's annual cash generation capabilities. Even if the company sees fund infusion Vodafone Idea has to expand its cash EBITDA by multiple times to meet the annual dues to the government, cautions an analyst at a domestic broking firm.

While FY26 is still some time away, the company should focus on arresting customer churn and re -prioritse investments towards chosen markets and network upgradation.

Will ONDC Eat Swiggy And Zomato's Lunch?

Over the past week, social media platforms have been buzzing with news of discounts and lower bills for food ordered on the Open Network for Digital Commerce (ONDC) compared to the prices one pays in the duopoly of Zomato and Swiggy. This has also led to some pundits forecasting the death of two private food delivery apps – and even other e-commerce players once ONDC scales up. Those forecasts are far too premature. And whether ONDC can be a legitimate long term threat to private sector aggregators is still far from certain. What the last week shows though is ONDC's potential. Whether that potential will eventually lead to success or will fade away will take time to judge.

ONDC was established as a non-profit company and promoted by the government of India to democratise e-commerce and let small companies. It was set up in December 2021 with initial funds coming from Protean e-Governance Technologies (earlier known as NSDL e-Governance Infrastructure) and the Quality Council of India. Since then, a number of banks and others have come forward to pick up stakes – including SBI, Kotak Bank, ICICI Bank, HDFC Bank, Axis Bank and BOI – either directly or through affiliates and subsidiaries.

ONDC was envisaged as a digital public good built using open protocols – to do to e-commerce what Unified Payments Interface (UPI) did to the digital payment ecosystem. The ONDC platform on-boarded sellers, payment companies and delivery partners (like Dunzo) – allowing small shops the option to do tie-ups to take and fulfil orders. Initially, ONDC started with a pilot for testing purposes in Bengaluru and a few other cities – and now it has spread to other areas. It does not have its own app, unlike say Swiggy or Zomato, but partners such as PayTM, PhonePe and MagicPin allow customers to browse through the ONDC offerings and order and pay from these apps.

ONDC was a dull fusty government project that would garner a few enthusiastic headlines from time to time until last week when suddenly a few people posted about the bargains they got on ONDC and how it was cheaper and better than their experience with Zomato or Swiggy. Whether they were genuine early users or were encouraged to use ONDC is still not clear. What did happen was a knee-jerk reaction where the Zomato share price dropped sharply. Swiggy is not listed publicly yet – but news has come in that its valuation has apparently been slashed by its investors. Whether the Swiggy valuation was a reaction to ONDC or not is unclear.

Other consumers who have tried to replicate the food bargains enjoyed by the SM influencers have so far had a mixed experience. In some cases, the orders have been received and then cancelled multiple times. A few have ordered and received food successfully – but at prices either the same as on offer in Zomato or Swiggy. At least one person paid a higher price finally. Still others found that the choice of restaurants actually on ONDC platform was highly limited. And some did get excellent discounts.

These could be initial glitches but some facts are clear. ONDC officials have publicly said that they do not want to use discounts over the long term to win market share. Given that ONDC is still not scaled up, a small amount of promotion made sense. And in some cases, it is the restaurants which have offered the discounts, not the platform itself.

The deliveries are another issue. Reports suggest that in many cases, the restaurants are handling the delivery themselves – as many restaurants used to do before the advent of Zomato and Swiggy. Others have used Dunzo and Loadshare etc. In some cases, the restaurants have absorbed the delivery costs – and in others the customer has had to pay. In at least a couple of cases, the delivery costs paid by the customer are higher than those in Swiggy or Zomato – but equally, it has also been lower in several other cases.

But to understand whether ONDC is able to make Zomato and Swiggy irrelevant for the Indian customer, a few things needs to be looked at. The first is the cost of building and upgrading the platform and always ensuring that it is running perfectly so that restaurants (and other retailers) find it a viable option to the proprietary food delivery apps or the e-commerce platforms like Amazon and Flipkart.

In theory, using open source tools to build a platform should be cheaper than others but that is in theory. It is not clear whether the cost of building the ONDC platform – and scaling it up – will be cheaper than the cost incurred by Amazon, Swiggy, Zomato, Flipkart or others. At the moment, as an initial sweetener, ONDC is offering lower prices for on-boarding on its platform than others. Will this remain the case when it becomes fully functional is open to question.

Then there is the question of scale and range of offerings. As things stand today, not too many food vendors or restaurants have joined the platform to pose a serious threat to existing heavyweights such as Swiggy or Zomato. Ditto for grocery shops -- ONDC is hardly a viable for the customer.

Then there is the case of the ordering, payment and delivery experience. The best ideas can fail if the customer experience is not smooth. This is where the biggest questions arise about ONDC. In most cases, it is expected that the food or grocery vendor will have tied up with a payment services platform and one or more delivery partners for a smooth service. How well this will work in practice is still to be seen. All the big existing online businesses have spent years and invested billions to create an experience meant to keep the customer locked on to their platforms. That is a significant moat – probably a bigger one than some temporary discounts can cross.

The biggest factor that will play a role though is how long investors are willing to fund losses. Both Zomato and Swiggy had significant venture capital funding to build their operations before they started looking at profitability. Zomato raised further money from a public listing.

ONDC has also tied up investors – many banks have taken between 5-8 percent stake in the company. But the investors are not venture capitalists who bet for the long term when they think they have spotted a genuine market disruptor. ONDC investors are bankers who will probably want the platform to break even sooner rather than later.

Eventually, it will be operational excellence and execution and the ability to make money that will be the biggest factors in determining who wins. For Zomato and Swiggy, the entry of ONDC is a threat because it increases the competition, even though the new platform is not a serious threat in the short term. Its entry changes the status quo of the duopoly. It might spur them to improve service levels and reduce costs as well for the consumer.

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