श्री LAKSHMISHREE

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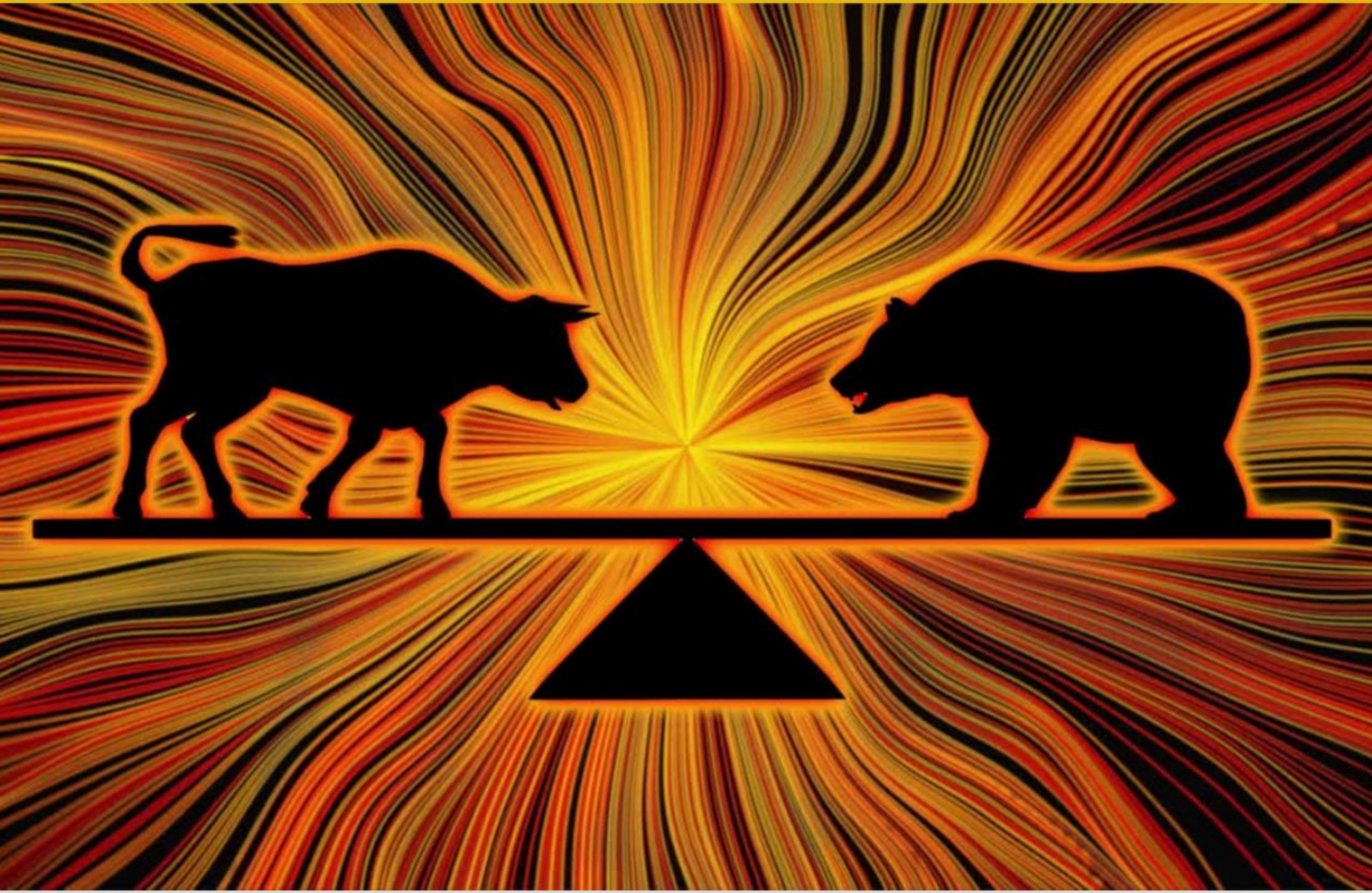

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FOR

BETTER

TOMORROW !!

From Managing Director's Desk To Readers

The end of the Petrodollar?

WHAT IS THE PETRODOLLAR SYSTEM?

Petrodollars are not a currency. They are simply U.S. dollars exchanged for crude oil exports. The term gained economic and political prominence in the mid-1970s amidst growing interdependence between the United States and crude oil exporters.

In August 1971, U.S. President Nixon announced the end of the "convertibility of the U.S. dollar to gold. The rest of the world's dependence on the U.S. dollar began to decline. The United States then sought to increase the demand for dollars by other means.

In 1979, the U.S.-Saudi Joint Commission on Economic Cooperation was born. Under this "Oil for Dollars" agreement, Saudi Arabia must comply with the following clauses:

1) Sell its oil to the rest of the world in a single currency, the US dollar;

2) Reinvest its excess dollar reserves in U.S. Treasury securities and U.S. companies (which help improve Saudi Arabia's infrastructure through technology transfers).

In exchange, the United States provides a security guarantee to Saudi Arabia.

The oil-for-dollars deal was later extended to other OPEC countries.

THE ADVANTAGES OF PETRODOLLAR RECYCLING

For the United States

The U.S. dollar acts as the world's reserve currency because every nation must have access to the dollar to crude buy oil. Therefore, central banks around the world must hold dollars as an integral component of their reserves.

The dollar denomination of oil and gas futures contracts has consolidated U.S. hegemony over world trade.

Petrodollars are recycled into U.S. Treasury bills (see chart below), which helps to 1) finance the U.S. debt and budget deficit and; 2) keep U.S. interest rates low (which supports U.S. domestic consumption). China and Russia have had no choice but to hold U.S. Treasury securities and accumulate massive dollar reserves – also financing the U.S. deficit.

The U.S. has been able to pay for oil imports with its own currency, which it can print at will.

For Oil exporting countries

Petrodollars increase imports and stimulate the local economy.

Some of the petrodollars are recycled through sovereign wealth funds that invest in non-oil related businesses, allowing for diversification of the economic fabric.

Reserves held in U.S. Treasury bills help maintain parity with the U.S. dollar. A strong currency helps to reduce inflationary pressures.

CONCLUSION

The end of the petrodollar would imply a very different dynamic than the one we know today. Commodity exporting nations would be able to free themselves from the dollar and fix their currencies against a basket of commodities. Importing countries would have to buy these currencies to pay for their energy or agricultural imports. The currencies of commodity-exporting regions would appreciate accordingly, especially since years of underinvestment have created significant supply deficits in some commodities.

We may be at the dawn of a new era, a multipolar world where bilateral trade agreements will replace the old world order centered around the petrodollar. A paradigm shift that could penalize first and foremost those regions that are most dependent on raw material imports, namely Europe and Japan. Indeed, these two regions will probably remain cut off from Russia and will not benefit from any currency recycling to finance their respective debts and deficits. On the other hand, bilateral agreements such as Russia-India or China-Saudi Arabia could strengthen the economic and geopolitical power of these countries located in the East.

For its part, America could be less affected than other developed countries. Firstly, because its economy is essentially domestic, but also because it can become self-sufficient in many raw materials. The decline of the petrodollar would still push up inflation and interest rates.

Salil Shah
Managing Director
Lakshmishree Investments & Securities Pvt Ltd

Look What Our Research Analyst Has To Say…

NIFTY has given an impulse down move in the first half of the October and a bounce towards the end of the month and November is most likely to consolidate into the extremes of the impulse range which are placed at 18096 & 16747. Falling energy prices are expected to put downward pressure on the inflation.

India-UK Ties | Despite euphoria, Rishi Sunak's impact will be marginal at best

India-UK Ties | Despite euphoria, Rishi Sunak's impact will be marginal at best

We did not have a UK-India FTA on Diwali, as hoped by the then visiting British Prime Minister Boris Johnson earlier this year. But we do have an Indian-origin Prime Minister in 10 Downing Street now. Rishi Sunak's ascent to power has generated a lot of interest in India. The UK's youngest Prime Minister in 200 years is a practicing Hindu who earlier took oath on the Bhagwad Gita.

Despite being relatively new to British politics, he has played his cards well. Within a few years of becoming Member of Parliament, he was first appointed Chancellor of Exchequer, and now Prime Minister. This despite the fact that he is non-white and descendant of immigrants from India and East Africa.

Although the recent political turmoil within the Conservative Party, and economic difficulties have provided an opportunity for him to become British Prime Minister, this is certainly a huge achievement for British democracy. This does not mean racism is finished in Britain, or suddenly the United Kingdom has become a successful multicultural society. Still, this indicates further maturity in

British politics, attitudes, and its democracy. This is not a small achievement. It also shows that merit and competence get rewarded in a free British society.

In his first speech as Prime Minister he highlighted that the country is “facing a profound economic crisis”. Further, the “aftermath of Covid still lingers” and "Putin's war in Ukraine has destabilised energy markets and supply chains the world over”. Without specifying details, he asserted that through “integrity, professionalism and accountability” he would bring “economic stability”, and fix some mistakes made by his predecessor.

Sunak is a technocrat, and showed his competence as a Chancellor of Exchequer during the pandemic. This is perhaps the reason he is chosen by his party. But the real challenge for him is political. As a leader he has to unite a badly-divided Conservative Party. Many members of the Boris Johnson Cabinet are back. Since Tories are in no mood to go for elections now, he has more than two years to provide economic stability, unite the party, and lead Tories in the next general elections.

His appointments may bring some calm in financial markets. But his political leadership to implement “hard economic decisions” to control inflation, and inject growth still needs to be demonstrated.

Despite some euphoria in India, Sunak’s impact on India-UK ties will be marginal at best. The bilateral ties are already on an upward trajectory. This momentum will continue. The comprehensive strategic partnership, Roadmap 2030, and British tilt towards the Indo-Pacific have already brought the two countries closer.

The most important deliverable expected is a bilateral FTA. Apart from agreements on many chapters, mobility of skilled Indians to the UK could be a sticky point. Another Indian-origin MP, Suella Braverman has been re-appointed as Home Secretary. She earlier branded Indians as the largest group of migrants who overstayed in the UK.

Sunak has also been an early backer of Brexit, wants more controls of its borders, and favours deporting of asylum seekers to Rwanda. So tough negotiations on mobility issue are expected under the Sunak administration. Although the UK’s economic conditions are not very favourable towards a new trade agreement, both sides feel that early FTA will help trade and investment in the coming years.

Internationally, Sunak will continue to follow the UK's role and responsibilities at the UNSC, NATO, G7, and G20. With his international exposure and background, he will have little difficulty in adjusting to this role. No change is expected in Britain’s prominent role in support of Ukraine.

At this point in history, Sunak has got an opportunity to prove his capability in stabilising the British economy. The markets would expect a detailed and credible tax rise, expenditure cut, and defence spending plan of action. The accumulated economic problems are the result of Brexit shocks, the pandemic, and the Ukraine war. Some of the issues can be tackled through domestic responses, but many issues need wider co-ordination within Europe and beyond.

Still, a limited economic stability can strengthen him politically within the Conservative Party’s rank and file. Tories are fast losing popularity. Sunak’s main job at the moment is to keep the party united so that it can avoid a general election which could prove disastrous for the Conservatives. The Brexit is done. But the Brexiters are now reluctant to go to electorates.

Anshul Jain

Research Analyst

Stocks To Watch

www.lakshmishree.com

1. Nirmal Bang Equities Pvt. Ltd.

Key Data

Current Shares O/S (Mn)	205.0
Mkt Cap (Rsbn/US$mn)	79.3/958.6
52 Wk H / L (Rs)	410/211
Daily Vol. (3M NSE Avg.)	316,823

Our Take…

Moderation in occupancy amid seasonality impact

Chalet Hotels' revenue decreased by 2.1% QoQ in 2QFY23, mainly due to decline in occupancy level from 78% in 1QFY23 to 71% in 2QFY23. This was partially offset by growth in ARR, which increased by 6.3% QoQ to Rs7,930 in 2QFY23. Consequently, the overall RevPar declined by 2.5% QoQ to Rs5,650. In 1QFY23, there was strong booking in Mumbai due to IPL. However, 2QFY23 was a washout period in terms of sports-related demand. Also, a prolonged monsoon in Mumbai and renovation of the Westin hotel at Powai (~150 rooms and ballroom) resulted in decline in overall occupancy. However, the management remains positive about strong bookings from Corporate and MICE segments persisting in 2HFY23. Also, foreign travel saw a recovery of 64% compared to pre- covid level. However, the management expects foreign travel to recover to ~90% of pre-covid level in 2HFY23.

Overall, the management expects recovery to be much faster, with FY23 revenue and profitability expected to surpass pre-covid levels. Further, the conversion of retail space with a leasable area of

~0.12mn sqft into office space bodes well for Chalet Hotels in aiding expansion of operating margin. The company also plans to convert an area of ~0.3mn sqft at Inorbit Mall, Bengaluru into office space, which should lead to further margin expansion. Also, addition of 256 keys to its hotel inventory in FY23 will be favorable given the strong demand amid pick-up in economic activities.

While we like the Chalet franchise, we are in the process of taking over coverage and hence we have put it "Under Review" for the time being.

Revenue declined by 2.1% QoQ and increased by 93% YoY to Rs2,478mn: Revenue declined by 2.1% QoQ but increased by 93% YoY to Rs2,478mn in 2QFY23.

Hospitality revenue: The 2.8%QoQ decline in revenue in the Hospitality segment to Rs2,233mn was due to:

(1) RevPar decreasing by 2.5% QoQ to Rs5,650 on account of lower occupancy at 71% in 2QFY23 vs 78% in 1QFY23. Whereas, ARR grew by 6.3% QoQ to Rs7,930. The QoQ decline in occupancy was due to: (i) Seasonality impact (ii) Renovation of Westin hotel at Powai (~150 rooms and ballroom) (iii) Prolonged holidays amid the onset of festive season in Aug'22 disrupted

corporate travel (iv) Also, Mumbai occupancy was stronger in 1QFY23 due to IPL and 2QFY23 was a washout period in terms demand from sports events.

In terms of cities, occupancy in Bengaluru increased by 8% QoQ to 67%. Whereas, occupancy in Mumbai/Hyderabad/Pune declined by 10%/8%/6% QoQ to 71%/69%/83% in 2QFY23.

Retail and Commercial: Revenue increased by 6% QoQ to Rs244mn in 2QFY23 mainly due to repurposing of retail assets at The Orb (Mumbai) with a leasable area of ~0.12mn sqft into commercial space.

However, revenue increased by 5.3% in 2QFY23 compared to 2QFY20 (pre-covid level).

Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22
Net sales	**9,872**	**9,811**	**2,944**	**5,078**
Growth YoY (%)	*24.1*	*-0.6*	*-70.0*	*72.5*
Operating costs	4,755	4,607	1,884	3,285
Other expenses	1,925	1,838	989	808
EBITDA	**3,192**	**3,366**	**71**	**985**
EBITDA growth (%)	**30.4**	**5.4**	**(97.9)**	**1,296.9**
EBITDA margin (%)	**32.3**	**34.3**	**2.4**	**19.4**
Depreciation	1,154	1,133	1,175	1,184
EBIT	**2,038**	**2,233**	**-1,104**	**-199**
EBIT (%)	**20.6**	**22.8**	**-37.5**	**-3.9**
Interest expense	2,657	1,462	1,520	1,444
Other income	476	279	223	219
Others	(41)	(42)	(82)	(110)
Earnings before tax	**(183)**	**1,008**	**(2,483)**	**(1,534)**
Tax- total	(107)	12	(1,092)	(38)
Rate of tax (%)	58.4	1.2	44.0	2.5
Net profit	**(76)**	**996**	**(1,391)**	**(1,496)**
Minority Interest	-	(30)	(1)	1
Adjusted Net Profit	**(76)**	**1,027**	**(1,391)**	**(1,497)**
% growth	NA	NA	NA	NA
EPS (FD)	(0.37)	5.01	(6.78)	(3.98)
% growth	NA	NA	NA	NA

Balance Sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22
Equity Share capital	2,050	2,050	2,050	2,050
Prefrence Share Capital	518	1,108	1,195	1,695
Reserves and surplus	12,176	13,495	12,110	11,362
Net worth	**14,745**	**16,653**	**15,355**	**15,107**
Minority Interest	28	(3)	(3)	(3)
Loans	14,942	17,907	19,389	25,931
Other Financial Liabilities:	208	198	191	160
Provisions	58	76	76	80
Deferred tax liability	291	222	138	12
Other non-current liability	144	133	110	140
Total capital employed	**30,416**	**35,188**	**35,255**	**41,428**
Goodwill	226	226	226	226
Property, plant and equipment	27,651	30,839	30,929	33,908
Non Current Investments	47	45	45	63
Loans	122	113	109	-
Other non-current assets	1,559	2,326	3,028	5,524
Total non-current assets	**29,605**	**33,550**	**34,337**	**39,720**
Trade payables	1,217	1,062	829	867
Other current liabilities	2,999	2,989	2,895	2,802
Provisions (current)	967	889	909	1,047
Total current liabilities	**5,183**	**4,940**	**4,633**	**4,715**
Inventories	3,955	3,924	3,912	3,935
Trade receivables	477	417	216	436
Cash and bank balance	827	1,279	458	998
Loans and advances	**18**	**31**	**72**	**151**
Other current assets	**718**	**927**	**893**	**902**
Total current assets	**5,994**	**6,578**	**5,551**	**6,422**

Key Ratios

Y/E March	FY19	FY20	FY21	FY22
Profitability and return ratios				
EBITDA margin (%)	32.3	34.3	2.4	19.4
EBIT margin (%)	20.6	22.8	-37.5	-3.9
Net profit margin (%)	(0.8)	10.2	(47.3)	(29.5)
RoE (%)	(0.5)	6.0	(9.1)	(9.9)
RoCE (%)	6.9	6.5	(3.2)	(0.5)
Working capital & liquidity ratios				
Receivable (days)	17.6	15.5	26.8	25.0
Inventory (days)	27.4	24.6	79.9	79.9
Payable (days)	152.7	134.2	340.2	120.0
Current ratio (x)	1.2	1.3	1.2	1.4
Valuation ratios				
EV/sales (x)	8.9	9.2	31.4	19.4
EV/EBITDA (x)	27.4	26.7	1,309.3	99.8
P/E (x)	NA	71.5	NA	NA
P/BV (x)	5.0	4.4	4.8	4.9

2. Dabur India

Bloomberg/Reuters	DABUR IN / DABU.BO
Sector	FMCG
Shares o/s (mn)	1,772
Market cap. (Rs mn)	973,318
3-m daily average value (Rs mn)	71.7
52-week high / low	Rs 62/482
Sensex/Nifty	59,757 / 17,737

Share Holding Pattern %	
Promoters	67.2
FII	20.2
DII	4.0
Public	8.6

Our Take…

DABUR India (DABUR) 2QFY23 result was above our estimates. HPC and Food & Beverage business continued to grow at healthy rate driven by market share gains in hair oil (20bp), shampoo(40bp), Odomos (330bp), Odonil (350bp) and fruit juice (410bp) segments. Revenue from Healthcare declined due to high base. Positively, DABUR continues to gain market share in Chyawanprash (120bp) and Honey (40bp). DABUR took 6% price hike against 10% inflation during 2QFY23. Expect margins to improve sequentially over next 6 months. Acquisition of 51% stake in Badshah will help DABUR strengthen its food portfolio in a large market of blended-branded-spices (Rs 12.5k crore market-

size) led by distribution-synergies. We maintain our estimates for FY23-24E with BUY rating and target price of Rs 682.

Key Highlights and Investment Rationale

■ Growth momentum continues for HPC and F&B: Consol revenue grew 6%YoY (on a base of 12%YoY) driven by 7%YoY (on a base of 12%YoY) growth in India business. Company took price hike of 6% during 2QFY23. International business grew 12%YoY CC (2.5% INR). Revenue from HPC and F&B segment grew 6%YoY and 30%YoY respectively while Healthcare revenue fell 7%YoY. Contribution from innovation stands at 4% of revenue.

■ Inflationary pressure impacts operating margins: Gross margin contracted 346bps YoY (7th consecutive decline) to 45.4% due to input cost inflation. As a consequence, EBITDA margin declined 191bp YoY to 20.1%. Adjusted PAT fell 3%YoY to Rs5 bn.

■ Maintain BUY: We have maintained our EPS estimate during FY23-24E. We value DABUR at 50x FY24E EPS. At current price our rating stands at BUY with a revised TP of Rs 682.

Consolidated Quarterly Snapshot

(INR m)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	YTDFY23	YTDFY22	YoY (%)
Revenues	**29,865**	**28,176**	**6.0**	**28,224**	**5.8**	**58,089**	**54,291**	**7.0**
COGS	16,314	14,415	13.2	15,281	6.8	31,595	27,969	13.0
Gross profit	13,551	13,761	-1.5	12,943	4.7	26,494	26,323	0.7
Gross Margin (%)	45.4	48.8	-346 bps	45.9	-48 bps	45.6	48.5	-287 bps
Employee expenses	2,876	2,697	6.6	2,699	6.5	5,575	5,279	5.6
% of net sales	9.6	9.6	6 bps	9.6	7 bps	9.6	9.7	-13 bps
Advertisement expenses	1,518	2,022	-24.9	1,572	-3.4	3,090	3,905	-20.9
% of net sales	5.1	7.2	-209 bps	5.6	-49 bps	5.3	7.2	-187 bps
Other Expenses	3,150	2,835	11.1	3,236	-2.6	6,386	5,411	18.0
% of net sales	10.5	10.1	48 bps	11.5	-92 bps	11.0	10.0	103 bps
EBITDA	**6,007**	**6,207**	**-3.2**	**5,437**	**10.5**	**11,444**	**11,727**	**-2.4**
EBITDA Margin (%)	**20.1**	**22.0**	**-191 bps**	**19.3**	**85 bps**	**19.7**	**21.6**	**-190 bps**
Depreciation	705	633	11.3	676	4.2	1,381	1,246	10.8
EBIT	5,303	5,574	-4.9	4,761	11.39	10,063	10,481	-4.0
Other Income	1,233	1,124	9.6	1,006	22.6	2,238	1,973	13.5
Interest Expenses	151	83	82.1	122	24.0	272	158	72.5
PBT	**6,385**	**6,616**	**-3.5**	**5,645**	**13.1**	**12,030**	**12,296**	**-2.2**
Taxes	1,473	1,558	-5.5	1,231	19.7	2,704	2,855	-5.3
Adjusted PAT	**4,912**	**5,057**	**-2.9**	**4,414**	**11.3**	**9,326**	**9,441**	**-1.2**
Extra-ordinary items	0	0		0		0	0	
Minority Interest	0	10		0		0	19	
Share in profit/loss of associate	-3	-4		-3		-7	-4	
Reported PAT	4,909	5,044	-2.7	4,411	11.3	9,319	9,418	-1.1
EPS	**2.8**	**2.87**	**-3.1**	**2.5**	**11.3**	**5.3**	**5.3**	**-1.3**

Financial Snapshot

(Rs Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	87,036	95,617	108,887	118,820	131,748
Change (yoy, %)	2	10	14	9	11
EBITDA	17,924	27,780	22,538	26,143	29,862
Change (yoy, %)	3	55	(19)	16	14
EBITDA Margin(%)	20.6	29.1	20.7	22.0	22.7
Adj.PAT	14,450	24,657	17,394	21,234	24,103
EPS (Rs)	8.2	14.0	9.8	12.0	13.6
Change (yoy, %)	0.2	70.6	(29.5)	22.1	13.5
PE(x)	67.2	39.4	55.8	45.7	40.3
Dividend Yield (%)	0.5	0.6	1.0	1.1	1.2
EV/EBITDA (x)	53.9	34.6	43.3	36.1	31.3
RoE (%)	23.6	34.6	21.7	23.8	24.0
RoCE (%)	23.3	32.9	22.4	23.0	23.6

Profit & Loss Account

As at March (Rs Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	**85,331**	**87,036**	**95,617**	**108,887**	**118,820**	**131,748**
Change (yoy, %)	*10.1*	*2.0*	*9.9*	*13.9*	*9.1*	*10.9*
Operating expenses	(67,935)	(69,112)	(67,836)	(86,349)	(92,677)	(101,886)
EBITDA	**17,396**	**17,924**	**27,780**	**22,538**	**26,143**	**29,862**
Change (yoy, %)	*7.6*	*3.0*	*55.0*	*-18.9*	*16.0*	*14.2*
Margin (%)	*20.4*	*20.6*	*29.1*	*20.7*	*22.0*	*22.7*
Depreciation	(1,769)	(2,205)	(2,357)	(2,529)	(2,795)	(3,264)
EBIT	**15,627**	**15,719**	**25,423**	**20,009**	**23,348**	**26,598**
Interest paid	(596)	(495)	(290)	(386)	(412)	(381)
Other income	2,962	3,053	3,253	3,932	4,489	4,713
Pre-tax profit	**17,993**	**18,277**	**28,386**	**23,555**	**27,425**	**30,931**
Tax	(2,786)	(2,797)	(3,705)	(5,264)	(6,171)	(6,805)
Effective tax rate (%)	*15.5*	*15.3*	*13.1*	*22.3*	*22.5*	*22.0*
Minority Interest	(29.6)	(29.7)	(23.8)	(47.4)	(20.7)	(23.4)
Net profit	**15,177**	**15,450**	**24,657**	**18,244**	**21,234**	**24,103**
Exceptional items	753	1,000	-	850	-	-
Adjusted net profit	**14,423**	**14,450**	**24,657**	**17,394**	**21,234**	**24,103**
Change (yoy, %)	*6.5*	*0.2*	*70.6*	*(29.5)*	*22.1*	*13.5*
EPS	8.2	8.2	14.0	9.8	12.0	13.6
Dividend per sh	7.5	2.9	3.4	5.5	6.0	6.8
Dividend Payout (%)	*91.8*	*35.5*	*24.0*	*55.9*	*50.0*	*50.0*

Balance Sheet

Year End: March (Rs Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	**56,317**	**66,058**	**76,635**	**83,812**	**94,429**	**106,480**
Share capital	1,766	1,767	1,767	1,767	1,767	1,767
Reserves & surplus	54,551	64,290	74,868	82,045	92,662	104,713
Total Debt	**5,243**	**4,671**	**4,833**	**10,301**	**10,301**	**10,301**
Other liabilities	872	850	786	1,502	1,466	1,466
Curr Liab & prov	**21,621**	**21,596**	**25,851**	**26,824**	**29,223**	**31,619**
Current liabilities	20,318	19,941	23,972	24,964	27,345	29,741
Provisions	1,302	1,655	1,878	1,860	1,878	1,878
Total liabilities	**27,736**	**27,118**	**31,469**	**38,627**	**40,990**	**43,386**
Total equity & liabilities	**84,366**	**93,540**	**108,471**	**122,845**	**135,825**	**150,272**
Net fixed assets	19,807	23,477	23,397	24,263	23,439	23,758
Investments	26,855	14,608	34,641	54,141	34,642	34,642
Other non-curr assets	1,842	6,653	2,674	1,272	2,511	2,511
Current assets	**35,862**	**48,802**	**47,759**	**43,168**	**75,233**	**89,361**
Inventories	13,005	13,796	17,343	19,114	20,857	23,127
Sundry Debtors	8,336	8,139	5,616	6,462	7,051	7,818
Cash and Bank	3,282	8,113	13,290	5,701	35,814	46,905
Loans and advances	-	-	-	-	-	-
Total assets	**84,366**	**93,540**	**108,471**	**122,845**	**135,825**	**150,272**

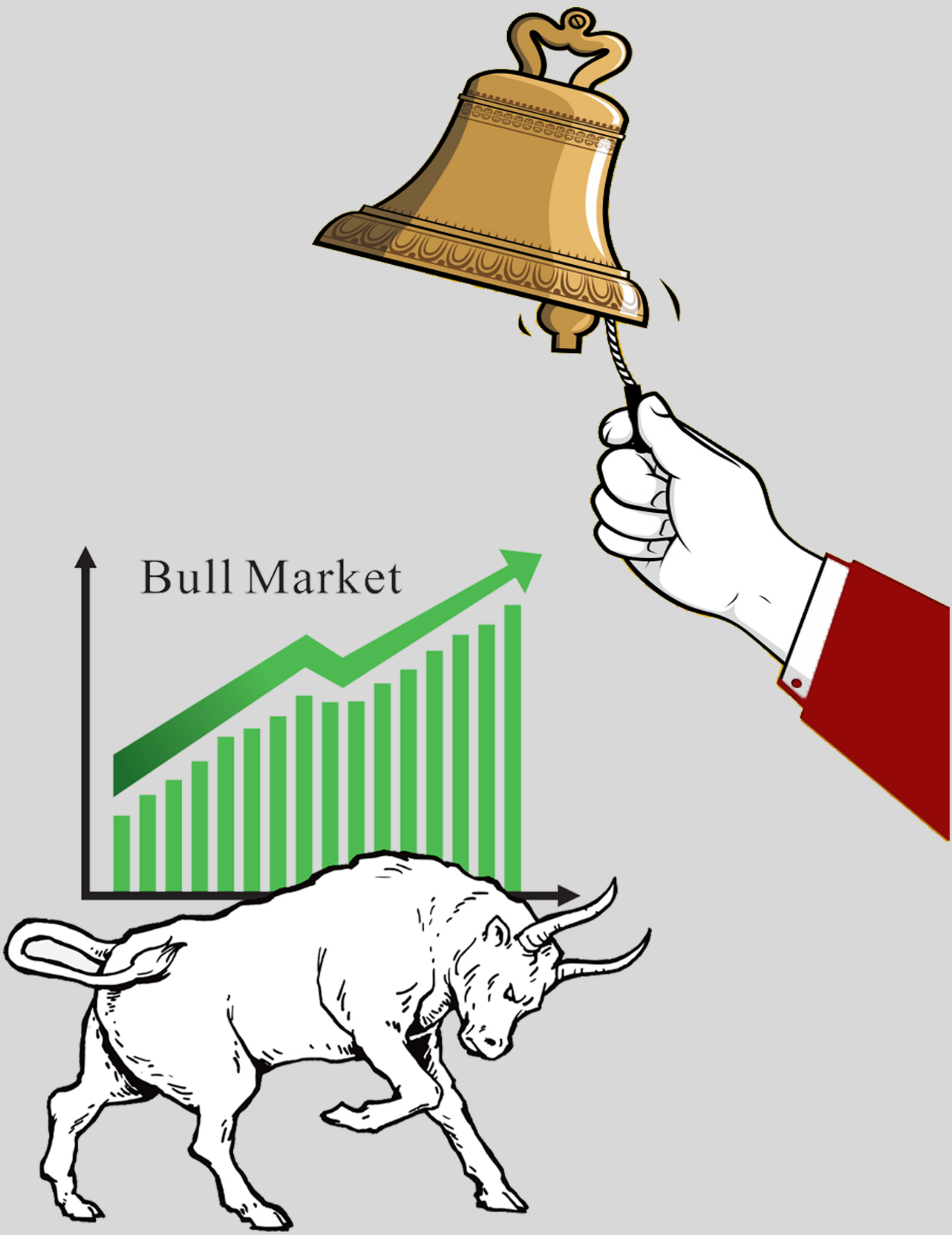
Financial Ratios Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	32	37	43	47	53	60
Adj EPS (Rs)	8.2	8.2	14.0	9.8	12.0	13.6
Adj EPS growth (%)	6.2	0.2	70.6	(29.5)	22.1	13.5
EBITDA margin (%)	20.4	20.6	29.1	20.7	22.0	22.7
Pre-tax margin (%)	21.1	21.0	29.7	21.6	23.1	23.5
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	0.1	(0.3)	(0.3)
ROCE (%)	24.0	23.3	32.9	22.4	23.0	23.6
ROE (%)	25.4	23.6	34.6	21.7	23.8	24.0
DuPont Analysis						
Asset turnover (x)	1.0	1.0	0.9	0.9	0.9	0.9
Leverage factor (x)	1.5	1.5	1.4	1.4	1.5	1.4
Net margin (%)	16.9	16.6	25.8	16.0	17.9	18.3
Working Capital & Liquidity ratio						
Inventory days	56	58	66	64	64	64
Receivable days	36	34	21	22	22	22
Payable days	78	78	103	85	87	87

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	67.3	67.2	39.4	55.8	45.7	40.3
Price/Book value (x)	17.2	14.7	12.7	11.6	10.3	9.1
EV/Net sales (x)	11.4	11.1	10.1	9.0	8.0	7.1
EV/EBITDA (x)	55.9	53.9	34.6	43.3	36.1	31.3
Dividend Yield (%)	1.4	0.5	0.6	1.0	1.1	1.2

This Might Impact Your Investments!!



Trending declines: Tough times ahead for tech

Social networking giant Meta suffered a catastrophic 25 per cent drop in share price in one session after it announced corporate results for the July-September quarter. The stock has lost over 75 per cent in the last 12 months. Alphabet has also seen a sharp decline in share prices over the past one year. Amazon has seen a 38 per cent decline in market value during the same period and suffered a 12 per cent drop in share prices after it released results. These drawdowns are not isolated instances. The Nasdaq-100, which features 100 of the world's largest listed tech companies, has lost an overall 27 per cent in the last year. Amazon, Alphabet and Meta have all declared results that were a long way below expectations with missed revenue and earnings estimates. The managements offered gloomy guidance about the future, cautioning investors about slower growth. Other tech companies have also warned about similar threats to margins, and growth slowdown.

Between them, Alphabet, Amazon and Meta garner an aggregated 75 per cent of global digital advertising revenues, which is expected to hit around $300 billion in calendar 2022. But there's been a slowdown in advertising, online and offline, which is symptomatic of a slowdown in global economic activity. Advertisers always cut back on spending during recessive conditions. The "Big Three" also face increasing competition from Twitter, Apple, Snapchat, Spotify, Yelp, Roku, Walmart, Instacart, IAC, Pluto TV, and Tubi. Each of these entities has carved out a billion dollar-plus presence in digital advertising despite a tight market and, as a result, margins have been pared. In addition to the presence in advertising and cloud services, Amazon is, of course, the largest online shopping space.

Therefore, weak guidance for October-December is a red flag, signalling low global consumption demand. This quarter is especially important since it is the festive season in most first world countries and is expected to usually generate disproportionately higher revenues.

In company-specific trends, Alphabet pointed to a shift in viewership trends, which is having a negative effect on YouTube revenues. Meta has also not found a way around Apple's new privacy measures, which cut down targeted advertising options. Apple is also taking a larger share of Meta's ad revenues through its revised app store revenue share policy. YouTube has seen fast growth in the "Shorts" segment featuring videos of short duration, formatted for smartphone screens. This is heartening in that it gives YouTube a toehold in a space hitherto dominated by TikTok. But it has proved difficult to generate ad revenues from shorts. Meta, meanwhile, estimates it will lose at least $10 billion in revenues due to Apple's "App tracking transparency" measures that allow iPhone users to opt out of being tracked by default. This has made it very hard for Meta to deliver targeted advertising, which is its stock-in-trade. At the same time, the metaverse, where Meta hopes to carve out dominant market share, is not yet a revenue-accretive environment.

These are all mature businesses, which are simply too large to deliver counter-cyclical performances in their key markets. If there's a slowdown in digital retail, digital advertising, or cloud services, it will inevitably be reflected in their performances. However, smaller, more nimble businesses, including start-ups, are also likely to have problems navigating such an environment. Investors have turned cautious as they have suffered capital losses.

Lift the ban on sugar exports

With the production of sugarcane, sugar, and cane-based ethanol set to scale new peaks in the current sugar season, which began this month, there seems little reason to persist with the moratorium on sugar exports imposed in May last. In fact, an early removal of this ban and announcement of the sugar export policy for 2022-23 would greatly help the industry to firm up its production plans and strike export deals with prospective importers. The international prices of this sweetener, after remaining volatile in the past few months, are expected to soften perceptibly by May next when fresh stocks from Brazil, the world's largest sugar exporter, hit the market. Sugar production in that country, as also in Thailand, another major sugar supplier, is anticipated to rebound after the previous season's poor cane harvest. The export window available for the Indian sellers is, therefore, rather narrow, mainly from November to April, thereby increasing the urgency for lifting the curbs on exports.

Last year (2021-22) was, indeed, a unique period for the Indian sugar sector when it displayed an all-round commendable performance without government doles. It broke all records in the production of sugar, sugarcane, and ethanol; cane procurement and payments to the farmers; and sugar exports. This industry has earlier been surviving largely on financial support from the government in the form of regular bailout packages. Supportive international prices and the government's move to allow ethanol production directly from cane juice and sugar also helped in improving the viability of this key agro-based industry.

Though the government had capped sugar exports at 10 million tonnes in May 2021 to stave off any spike in domestic sugar prices, it could not help letting 1.2 million tonnes of additional sugar being shipped out to allow the industry to meet its export commitments. Yet, the sugar season 2021-22 ended with a healthy carryover stock of over 5.5 million tonnes. The outlook for the new sugar season seems even brighter, thanks to the substantial expansion of cane acreage and the much bigger expected harvest. The agriculture ministry's preliminary estimates project a hefty 33 million-tonne increase in cane output, which can translate into an additional sugar production of around 3 million tonnes. The industry, however, is of the view that these are conservative estimates and the actual size of the crop is far larger. In fact, the ministry's initial crop estimates are invariably revised upwards when the final data is compiled.

The Indian Sugar Mills Association has, consequently, raised its sugar output projections for the 2022-23 season by about a million tonnes — from 35.5 million tonnes earlier to 36.5 million tonnes now — while retaining the anticipated consumption at around 27.5 million tonnes. Even after taking into account the envisaged higher diversion of cane juice and sugar for ethanol production, and keeping in mind the need to maintain an end-of-the-season inventory of at least 6 million tonnes to carry forward to the next year, the net availability of surplus sugar for exports has been reckoned at around 9 million tonnes. Unless the government takes immediate note of these realities and promptly responds by allowing exports as an outlet for the surplus stocks, the sugar sector might again be needlessly pushed into the red to the detriment of all stakeholders. This must be avoided.

Uncertain outlook: Markets in Samvat 2079

Samvat 2079 started with significant uncertainty. The Nifty has eased by a nominal 2 per cent since last Diwali. The rupee has dropped almost 9 per cent against the dollar while gaining against the pound, the euro, and the yen. On the positive side, most corporations are now declaring revenues exceeding respective pre-Covid levels of 2019-20, alongside higher profits buttressed by cost-cutting measures implemented during the pandemic. Higher corporate sales gel with strong traffic movements on railways and ports, healthy goods and services tax collection, and record power consumption. All these indicate the domestic economy is pulling out of the trough triggered by the 2020 lockdowns. There's also been a lot of de-leveraging and balance sheets are now stronger.

In addition, a host of start-ups (new-age tech companies) have taken advantage of a vibrant primary market to raise money and list on the stock exchange. However, most of them have seen big sell-offs subsequent to listing, causing losses for investors. The primary market has cooled off and might cool further, given the Securities and Exchange Board of India's decision to demand "justification" for initial public offering pricing. At a broader level, it is still a K-shaped, uneven recovery. Expensive high-end real estate has takers; high-end cars have buyers; two-wheelers are not doing well; lower-income real estate isn't seeing much demand. Unemployment is still high and high inflation is affecting sentiment. The Russia-Ukraine war has caused a massive disruption of global supply chains across industrial metals, chemicals and food grains, quite apart from Russia's key role in energy markets. In addition, repeated lockdowns in China have caused a slowdown in global manufacturing.

Apart from the significant risks of escalation around the Ukraine flashpoint, there are political complications affecting other economies as well. The UK's politics is in turmoil. A Republican resurgence in the US mid-term elections could hobble the Joe Biden administration's attempts to push through policy. Xi Jinping has been confirmed for a third term, which means China will continue its aggressive foreign policy posture. Brazil has a presidential run-off with implications for climate change, given the diametrically opposite attitudes of the candidates. All this would affect global growth and lead to a tough environment for exporters. There is a lot of pressure on the current account because of higher crude oil prices. The Organisation of the Petroleum Exporting Countries has decided to cut production to ensure that prices remain high. The rupee's performance with its strength against several currencies could affect external competitiveness.

How well the Reserve Bank of India (RBI) handles inflation, interest rates, and currency will, to an extent, determine stock market valuations and shape consumer sentiment through Samvat 2079. The stock market went up from late 2020-21, fuelled by high liquidity, loan moratoriums, tax cuts, and negative real interest rates. The RBI started increasing interest rates and reducing liquidity only after inflation became difficult to ignore. It will have to take steps deftly in future to control inflation with a minimal impact on consumption. Most corporations are still complaining about margin pressures and soft demand. Foreign portfolio investment has been net negative, with over Rs 1.8 trillion in sales in Samvat 2078. Thus, markets would hope for a broadening of recovery across sectors, which would drive consumption and investment in Samvat 2079. Happy investing.

Pricing pressure: Sebi should avoid over-regulation

The Securities and Exchange Board of India's (Sebi's) attitude to initial public offerings (IPOs) appears to have swung from being liberal to over-regulatory within the space of two years, going by recommendations adopted at the last board meeting. While some new requirements involve additional disclosures that could help investors and issuers, others cannot be termed market-friendly. For instance, the regulator has proposed a committee of independent directors (IDs) justify the IPO-pricing band, using quantitative means. The pricing band will then be compared with the weighted average cost of acquisition of prior primary issuances and secondary transactions in the share. The IPO-pricing band has to be adopted and approved by the board of directors anyhow. Thus, it is unclear how much value IDs could add to the process. This also puts a heavy burden of responsibility on IDs, who may not all be qualified to make such financial valuations. IDs are often chosen for their professional expertise in some sphere relevant to the company's business rather than for their financial acumen. Forcing an engineer or bio-scientist to justify IPO pricing may not be useful.

In other IPO-related measures, Sebi has approved an alternative five-stage filing mechanism. The current four-stage process consists of filing a draft red herring prospectus (DRHP) with Sebi, making it available for public comments for 21 days, followed by confidentially filing an updated DRHP. After Sebi's clearance, the approved RHP is filed with the Registrar of Companies (RoC) and exchanges. The final stage is filing a prospectus after setting the price band. Under the proposed optional five-stage process, an issuer can file a DRHP confidentially with Sebi and stock exchanges for in-principle approval. Once Sebi's observations are incorporated, an updated DRHP may be made available for public comment. This may be followed by confidential filing of a second updated DRHP and, upon approval, the issuer may file the RHP.

In this five-stage process, sensitive business data and competitive advantages would be kept confidential until all the approvals are done. The issuer may also be able to receive feedback from institutional investors to gauge demand and possible pricing without revealing details to the public at large. However, this five-stage process will perhaps extend IPO timelines. Sebi has also mandated that key performance indicators (KPIs) are to be disclosed in the prospectus. The price per share of the issuer based on primary issuances and secondary sale/acquisition, if any, in the 18 months preceding the IPO must also be disclosed. In the event of no transactions in the past 18 months, the last five transactions in the preceding three years are to be disclosed, along with the weighted average cost of acquisition. The intent is to justify IPO pricing through additional disclosures.

Issuers have generally disclosed KPIs in offer documents for marketing purposes but they will now have to mandatorily state them in the "Basis for Issue Price". This additional requirement is perhaps due to the bearish performance of new-age tech companies (NATCs). NATCs are usually loss-making and backed by private equity and venture capital investors. While much of this is sensible, the idea of asking IDs to justify pricing does not make sense. IPO pricing, or any equity valuation for that matter, will always have subjective elements. If there are adequate disclosures, the principle of "caveat emptor" should apply.

Rising global risks: India will need policy space

The latest assessment by economists at the Reserve Bank of India, published in the October Bulletin, has rightly underlined the increased global economic risks. There are a number of factors affecting the global economy that have further worsened the outlook. Higher global inflation is likely to persist for some time, resulting in sustained monetary tightening. The ongoing Ukraine war remains a big risk for the global economy. Although it is partly being played out in the form of higher energy prices, which have added to the general price pressure, the war can suddenly worsen things in many ways. The conflict, in a way, is also reshaping the terms of engagement among important countries. A setback to global cooperation and increased geopolitical tensions would hurt longer-term economic prospects. Meanwhile, the slowdown in China and potential stress in its financial sector are also risks for the global economy.

The Chinese slowdown may play out over a period of time, and since it has been a major driver of global growth over the years, this would weaken overall growth. Although the Ukraine war remains a big risk in the near term, economists at the moment are more worried about higher inflation, particularly in advanced economies. The inflation rate in the US, for example, continues to surprise on the upside. While the headline inflation rate for September came at 8.2 per cent, core inflation at 6.6 per cent was the highest in four decades. This suggests that inflation is unlikely to come down very quickly. The minutes of the Federal Reserve's latest policy meeting show that some participants believe the cost of doing too little to contain inflation could be more than doing too much. Some commentators have highlighted the risk of excess tightening.

Financial markets, however, now expect the Fed to increase the policy rate by another 75 basis points in November. The condition in Europe is not very different. The inflation rate in the euro area increased to 10 per cent in September, while it was at 9.9 per cent in August in the UK. The tightening of monetary policy in advanced economies, particularly the US, is not only a risk for growth but also financial stability. A sustained increase in interest rates and global uncertainty will further push capital out of developing economies. As the International Monetary Fund (IMF) has highlighted, eight low-income countries are in debt distress and several such economies could face a debt crisis. Higher interest rates and overall uncertainty could also potentially destabilise financial markets even in advanced economies as was seen in the UK recently.

Growth projections for the Indian economy have also been lowered by most agencies. The IMF, for instance, expects the Indian economy to expand by 6.8 per cent in the current fiscal year. While the current year's headline number would look higher because of the first-quarter base effect, projections for the next fiscal year will face significant risks. Given the global economic outlook, the policy focus should be to first preserve financial stability. Next year is likely to be more challenging with significantly tighter global financial conditions and slower economic growth. Indian policymakers would, therefore, do well to create and preserve policy space to deal with potential global shocks. This is not the time for policy risks.

Should you buy telecom stocks ahead of the 5G boom?

The much-awaited 5G services are rapidly catching up with consumers, as telecom majors carry out beta trials in several cities. While Bharti Airtel is currently undertaking such trials in eight cities, Reliance Jio's testing is also underway in six cities.

Vodafone Idea, however, hasn't mentioned any specific timeline. It is expected to roll out 5G network progressively over the next few years.

The progress is reflected in the telcos' September quarter results as well. Bharti Airtel's consolidated net profit jumped 89% year-on-year on a 22% revenue growth in Q2.

The company aims to provide 5G services across all of urban, and key rural areas by March 2024.

Reliance Jio's net profit, on the other hand, rose 28% YoY during the quarter. Jio targets complete 5G rollout by December 2023

Both Jio and Airtel saw their average revenue per user growing sequentially to Rs 177.2 and Rs 190, respectively.

Against this backdrop, the prospects for the telecom sector remain bright. Analysts believe affordably-priced 5G services will likely be another disruptor for the industry.

Independent market analyst Ambareesh Baliga believes 5G likely to be a big disruptor for the industry. He says, domestic telcos set to be the biggest beneficiaries of 5G. 5G to further divide between Reliance, Airtel with Vodafone in the last place. The industry is set to operate as a duopoly in the longer run

On the bourses, Bharti Airtel has rallied the most among peers so far during FY23 with a 10% gain. While Vodafone Idea has shed 11% during this period as compared to a 4% rise in the BSE Sensex.

However, analysts at Jefferies have downgraded Bharti Airtel's stock to 'hold' as they believe its growth potential has largely been factored in.

With upcoming state elections, tariff hikes are more likely to take place in Q4. Besides, network costs, as well as operating expenses, are likely to rise faster amidst 5G rollout and launch, according to Jefferies.

The rush to launch 5G services will also benefit telecom equipment providers, analysts say.

Stocks of Nelco, ITI and HFCL, for instance, have gained 5 to 16% so far since April.

Ambareesh Baliga says he is bullish on HFCL, Sterlite Tech on order flows with 5G launch.

Besides, HFCL has recently been selected among 42 others for the production-linked incentive scheme for telecom and networking products to support import-dependent verticals of 5G equipment.

That said, the market will track global cues today ahead of the US Fed's policy outcome. The Street will also monitor the Q2 results of Adani Transmission, JK Paper, and M&M Financial Services are some of the prominent companies that are scheduled to announce their respective September quarter results on Wednesday.

Sebi recovery rate less than 2% of Rs 99,490 cr claimed since 2013-14

The Securities and Exchange Board of India (Sebi) saw a decline in the proportion of money it collected as a percentage of the amounts for which it sent out recovery notices.

It has sent out recovery notices worth Rs 99,490.68 crore since 2013-14. The total amount recovered is Rs 1,450 crore or 1.46 per cent of the cumulative amount (chart 1).

The number of pending notices has also been increasing year after year. The figure at the end of FY22 was 2,872, up 31 per cent from 2,193 in the previous year.

This could be driven by the increase in the number of notices sent, which came in at 1,181–the highest since 2013-14 (chart 2).

Recovery was completed in 330 cases, also the highest so far. The number of cancelled recoveries has risen however, having more than doubled in 2021-22 over the previous year (chart 3).

The Sebi annual report noted that nearly two-thirds of the pending amount is because of notices related to PACL and Sahara India Commercial Corporation. Some amounts are also stuck due to parallel proceedings in various courts and court-appointed committees, noted the Sebi annual report.

Foreign investors sell $500 mn of India govt bonds in two days: Analysts

Foreign investors have sold Indian government debt worth nearly $500 million in the past two sessions, with the so-called FAR bonds bearing the brunt of a selloff that traders note is ahead of the Federal Reserve's policy decision and crucial U.S. data.

These investors have net sold bonds worth 41.1 billion Indian rupees over Friday and Monday, CCIL data showed, with more than 80% accounted for by securities exempt from restrictions under a "fully accessible route" for foreign investors.

The liquid five-year 7.38% 2027 bond and 14-year 7.54% 2036 bond have borne the major brunt, with outflows of 8.7 billion rupees and 8.2 billion rupees over the two sessions.

Market participants linked the sudden move to the Fed's policy decision due on Wednesday, where its future guidance and commentary on interest rates will be key, as well as the non-farm payroll data on Friday and retail inflation data next week.

"But we should not see any runaway movement as of now."

Another reason for the pullback is the disappointment that Indian government bonds would not be included in major global bond indexes this year, speculation of which had led to strong buying interest recently.

India introduced a clutch of securities under the "fully accessible route", or FAR, category in April 2020 to make its securities eligible for global index inclusion.

These securities received massive foreign inflows, with net addition of around 100 billion rupees in July-September, on rising bets on their imminent inclusion in global indexes.

J.P. Morgan poured cold water on those hopes in early October when it said Indian government bonds were merely on watch for inclusion into its emerging market index.

Inflows that were solely on the basis of index inclusion bets are now seeing reversal as any talk regarding inclusion is now some time away.

It expected non-resident demand to remain weak in the short term, especially as fixed income asset valuations have not dropped sharply, and hedging costs remain high. ($1 = 82.6370 Indian rupees)

Nykaa climbs 6% after net profit jumps 363% YoY to Rs 5 crore in Q2FY23

Shares of FSN e-Commerce Ventures, parent firm of Nykaa, surged 6.5 per cent to Rs 1,233 per share in Tuesday's intra-day trade, after the company's net profit jumped 363 per cent year-on-year (YoY) to Rs 5.1 crore in the July-September quarter (Q2FY23) from Rs 1.1 crore in the year-ago period.

At 1:15 pm, shares of Nykaa traded over 3 per cent higher at Rs 1,203 apiece, as against 0.2 per cent rise in the S&P BSE Sensex. In the past seven sessions, the stock has climbed 0.5 per cent as against 2 per cent gain in the S&P BSE Sensex.
The Indian cosmetic-to-fashion retailer's total income, meanwhile, climbed 39 per cent YoY to Rs 1,237.3 crore in Q2FY23 from Rs 890.4 crore in Q2FY22.

Total expenses, too, grew 38 per cent YoY to Rs 1,228.5 crore in the recently concluded quarter.
Since Nykaa is India’s largest player in the online beauty-to-personal care (BPC) segment, analysts at Nomura believe that the company’s expansion into fashion and increased focus to curate brands bodes well for the company.

With high medium-term growth potential and unique positioning, we believe risk-reward is quite favourable for long term investors with potential for the stock to double over the next 5 years. We foresee around ~18 per cent revenue CAGR for FY25-40F (~34 per cent online BPC market share), with EBITDA margin stabilising at ~18 per cent with a 'buy' rating, and a target price of Rs 1,365 per share.

Earlier, on September 9, 2022, the company had acquired complete stake in Illuminar Media Private Limited (LBB) for Rs 29.2 crore, in order to strengthen its content delivery, drive discovery of brands, and make shopping experience customer-friendly.

Analysts at ICICI Securities assert that Nykaa'' investments in differentiated value proposition of content, curation, and convenience will yield strong results. We model revenue and EBITDA CAGRs of 42 per cent and 90 per cent respectively over FY22-FY24E.

We maintain 'hold' rating, with a revised target price of Rs 1,250 per share.
Besides, the board of directors approved issue of bonus shares, in proportion of 5:1, i.e. 5 (five) bonus equity shares of Re 1 each for every 1 (one) fully paid-up equity share held as on the record date on November 11, 2022.

Sebi bans Mehul Choksi from securities market for 10 years, fines Rs 5 cr

The Securities and Exchange Board of India (Sebi) on Monday barred fugitive businessperson Mehul Choksi from accessing the securities market for ten years and imposed a penalty of Rs 5 crore for manipulative trading in stocks of Gitanjali Gems Ltd (GGL).

The Sebi order said that Choksi used front entities to undertake contra trades and derivatives transactions ‘to help him in maintaining the price of the scrip of GGL, so that his pledged shares were not invoked or that he did not have to pay additional margin money to the lenders’.

Sebi had earlier sentenced individuals to imprisonment for failing to pay the penalty in similar cases. Choksi has been given 45 days to pay the penalty.

In an earlier order in January this year, Sebi had prohibited Choksi from the securities market for one year for violating insider trading regulations. Moreover, Gitanjali Gems was suspended from the stock exchanges in April 2019.

The market regulator’s order comes when Choksi is already undergoing action by the Income Tax department, and an application filed by the Directorate of Enforcement to declare him a fugitive economic offender is pending before Bombay High Court in the Punjab National Bank scam case. Choksi is said to be residing in Antigua and Barbuda, the Sebi order said.

In the latest order, Sebi whole-time member Ashwani Bhatia said, “Entities had taken long position, both in the cash segment and the derivatives segment, wherein they had incurred significant losses while trading as such in the derivatives segment.” He added that these trades were not for hedging purposes but for maintaining the price and volume of the scrip to benefit Choksi.

Sebi had investigated trading activities of certain GGL entities between July 18, 2011 and January 25, 2012. The show cause notice alleged that the company was both transferring and receiving funds from the suspected entities and these amounts were either utilised for meeting pay-in and margin obligations towards brokers, or were pay-outs received from exchanges that were ultimately transferred back to GGL.

While being the chairman and managing director at Gitanjali Gems, Choksi funded 15 entities to take positions in the scrip of the company. GGL had transferred Rs 77.44 crore of which Rs 13.33 crore were used to trade in the scrip, said the order.

Sebi in its order added that Choksi did not respond to the regulator’s show cause notice and failed to appear for hearing.

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