

The Transcript

March, 2024

“You will be much more in control, if you realize how much you are not in control”.

Jason Zweig, Quoting Neuroscientist Antonio Damasio, The Intelligent Investor

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Today's youngsters are far more proud of Indian music, Indian traditions than perhaps the earlier generations who were just looking up to west for everything.



Saugata Gupta marico

We could not predict COVID. We could not predict Russia-Ukraine war. We could not predict Israel-Hamas. We could not predict Iran-Israel. We are not able to predict whether Trump will win, or Biden will win. We are not even able to predict whether Modiji will win or somebody else will win.

There is so much uncertainty around our life.



R. Shankar Raman *LARSEN & TOUBRO*

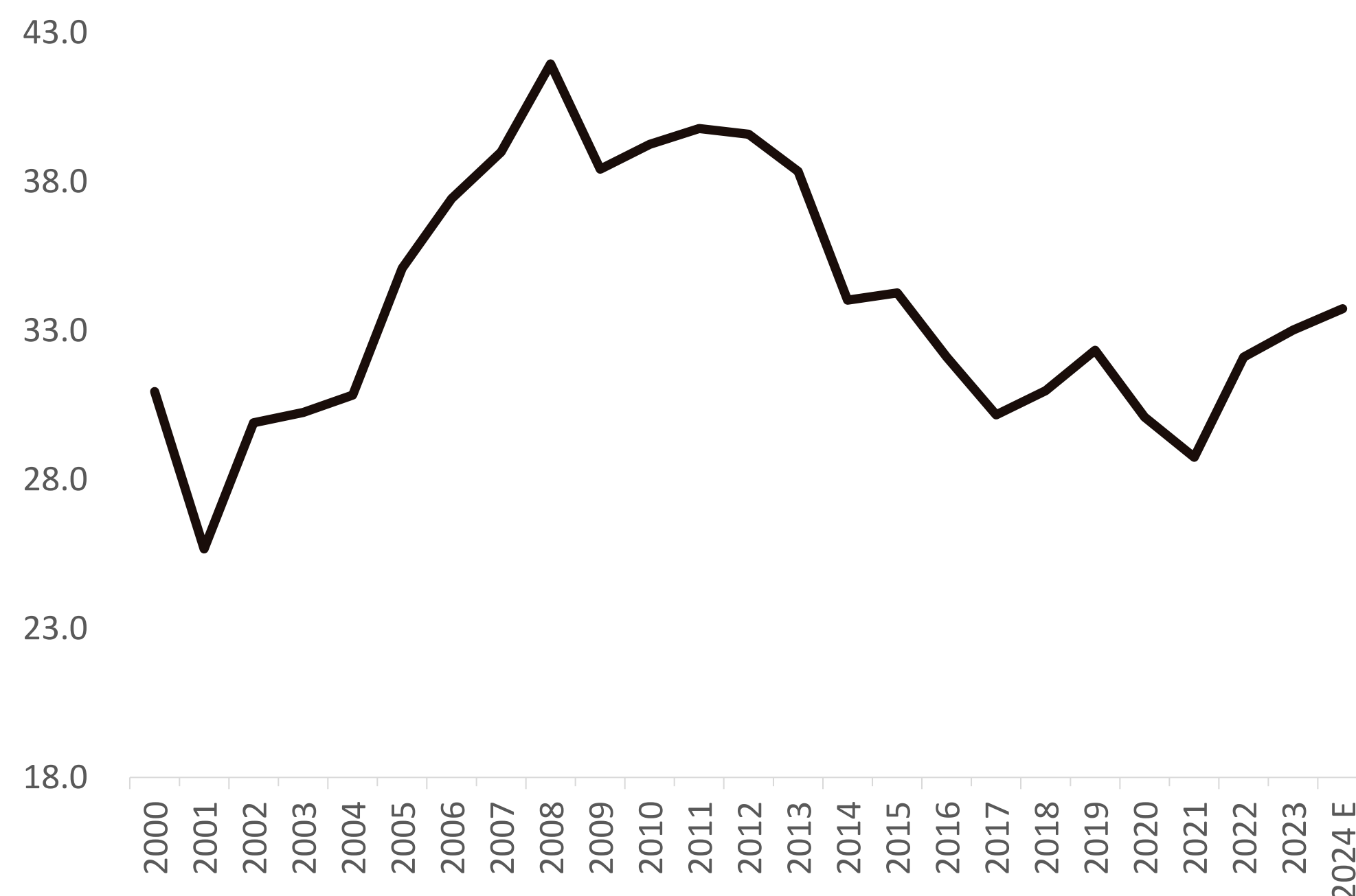
Capital Goods: Ready, Steady, Gulp



India's gross fixed capital formation (GFCF) as a percentage of GDP has started rising after years of decline, driven largely by government capex. This is expected to spur higher private sector capex as well. Capital goods companies indicate that we are at the beginning of a new capex cycle, reflected in their growing order books. Markets have sharply re-rated these companies. The average 12M Forward Enterprise Value To Ebitda Multiple, based on Bloomberg consensus, of these companies have gone up from 29.3X 5 years ago to 66.6 currently*. The rerating in the multiple itself has been in high teens.

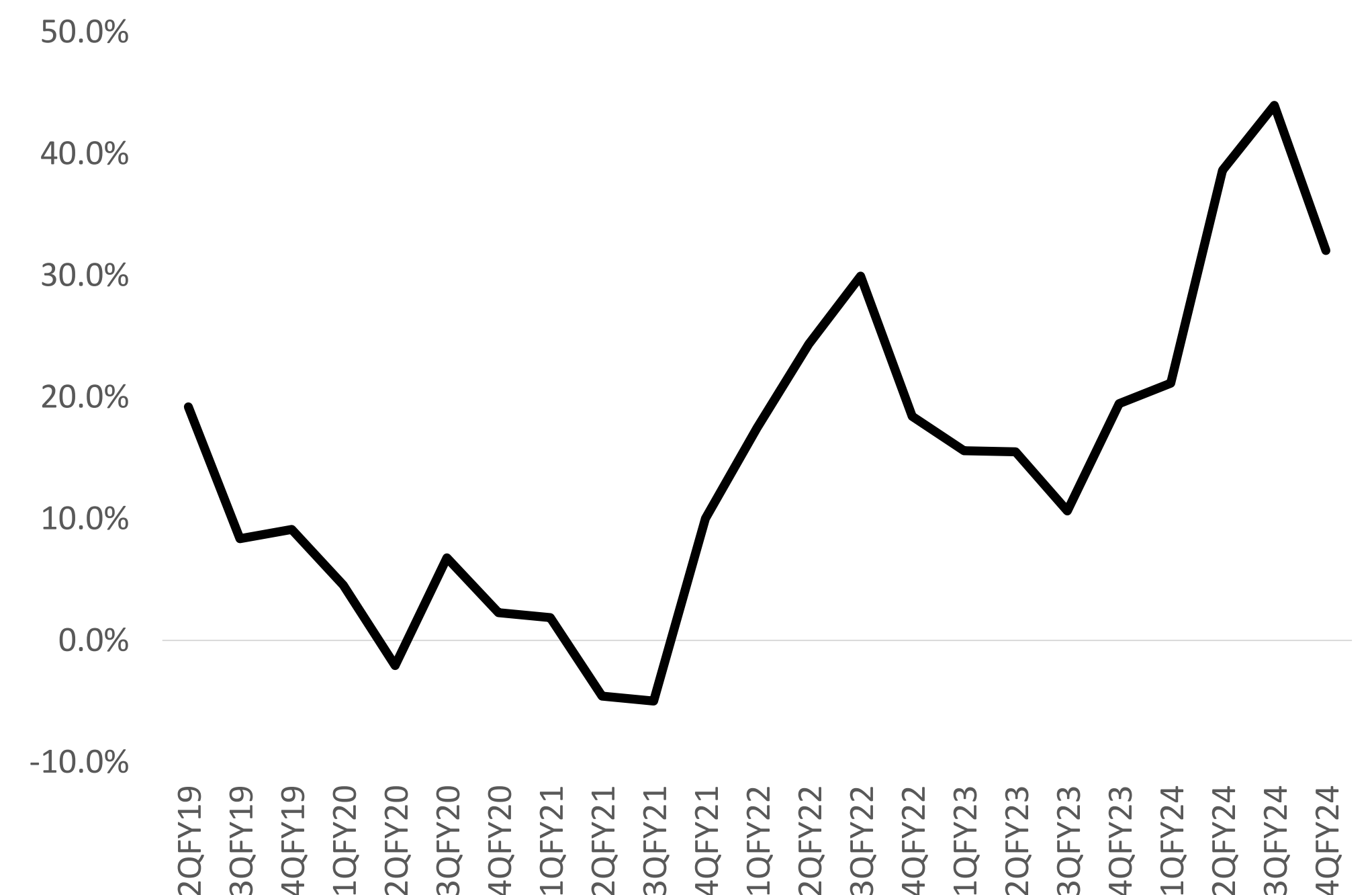
This cycle's capex focuses on digital technologies, automation, and robotics, benefiting the few companies that can meet this demand, potentially improving their profitability. However, similar companies globally have struggled to maintain high margins and capital return ratios in competitive B2B segments.

Gross Fixed Capital Formation (% of GDP)



Source: CMIE, RBI, Nuvama Research

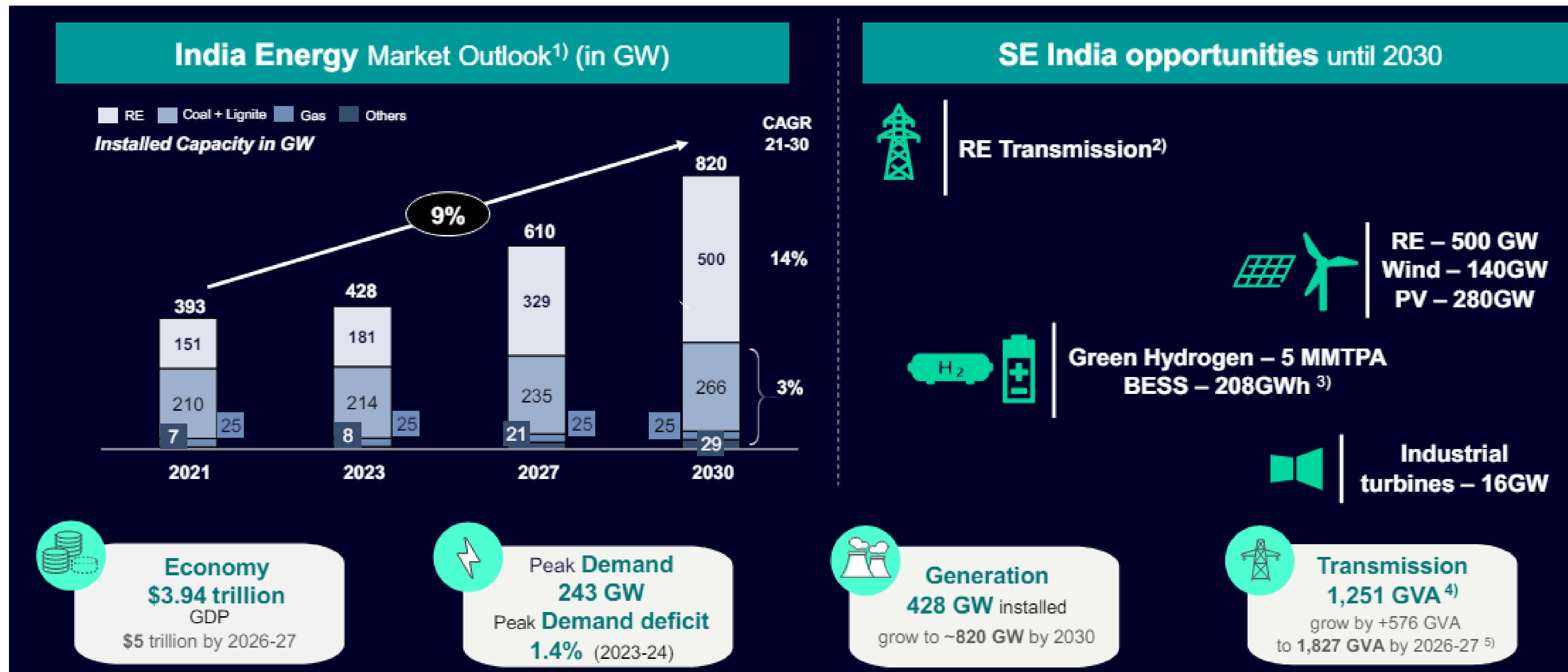
Order Book Growth (YoY)



Source: Company, Internal (ABB, Siemens, Thermax, KEC, Kalpataru, BEL)

*Basket of ABB/Siemens/Cummins/Thermax (Source: Bloomberg)

Strong Outlook For Energy



Source: Siemens 1QCY24 Presentation

Capital Goods: **Ready, Steady, Gulp**

Data Centers, Railways, Automation Driving Growth

Focus	Enhance	Sustain
Data Centers	Renewables	Textile
Railways & Metro	Automotive	Marine & Ports
Electronics	Warehouse & Logistics	Rubber & Plastics
	Water & Wastewater	Metals & Mining
	Building & Infrastructure	Oil, Gas and Chemicals
	Power Distribution	Pharma & Healthcare
	Food & Beverage	Pulp & Paper
		Cement
High Growth	Moderate Growth	Moderate-Low Growth

Source: ABB Ltd. 1QCY24 Presentation

We see a significant private investments in area like data center, automation, industrial automation, metals and mining and PLI-led CapEx. And this is something which has a starting point. I think many people say whether they have peak, but from our point of view, all these areas are just starting. They're just taking off. They are not peaking. They are there at the starting point relative to when we compare how these segments have grown in other developed economies.

It is true that global and everybody thought that India is a so-called very price-sensitive, low cost market. But I think that view is changing for good. And I have seen this happening quite frankly in China as well. In the early cycles of China, that's exactly what the pattern was emerging.

The ABB logo is the word 'ABB' in a bold, red, sans-serif font.

Siemens globally had embarked on a strategy to move from an electrical and automation company to a technology company by combining the digital and real worlds.

As the market grows competition grows. And all our competitors are active, we are active as well and our intent is to continue being a market leader and all the products that we are supplying and all the services and solutions that we provide to our customers. So, yes, competitive activity has substantially increased. But that's normal in a growing market.

The SIEMENS logo is the word 'SIEMENS' in a bold, teal, sans-serif font.

We have always called Thermax as the partner for energy transition, which means we will work on green solutions, green footprint, cutting-down-the-energy footprint. But we are very much part of the Indian fabric, which means if coal is a big part of India's energy story, things around coal gasification, improving efficiency of coal, are always part of our product basket.

So working on supercritical power projects in the utility side is something that we think we are capable of, and in fact, from a manufacturing point of view, beautifully set up, possibly with some of the best manufacturing capability in India in this area. But we will be very conservative in terms of how we approach it. We will not take the risk of an overall EPC and get into projects which can be hugely detracting at the macro level for Thermax.

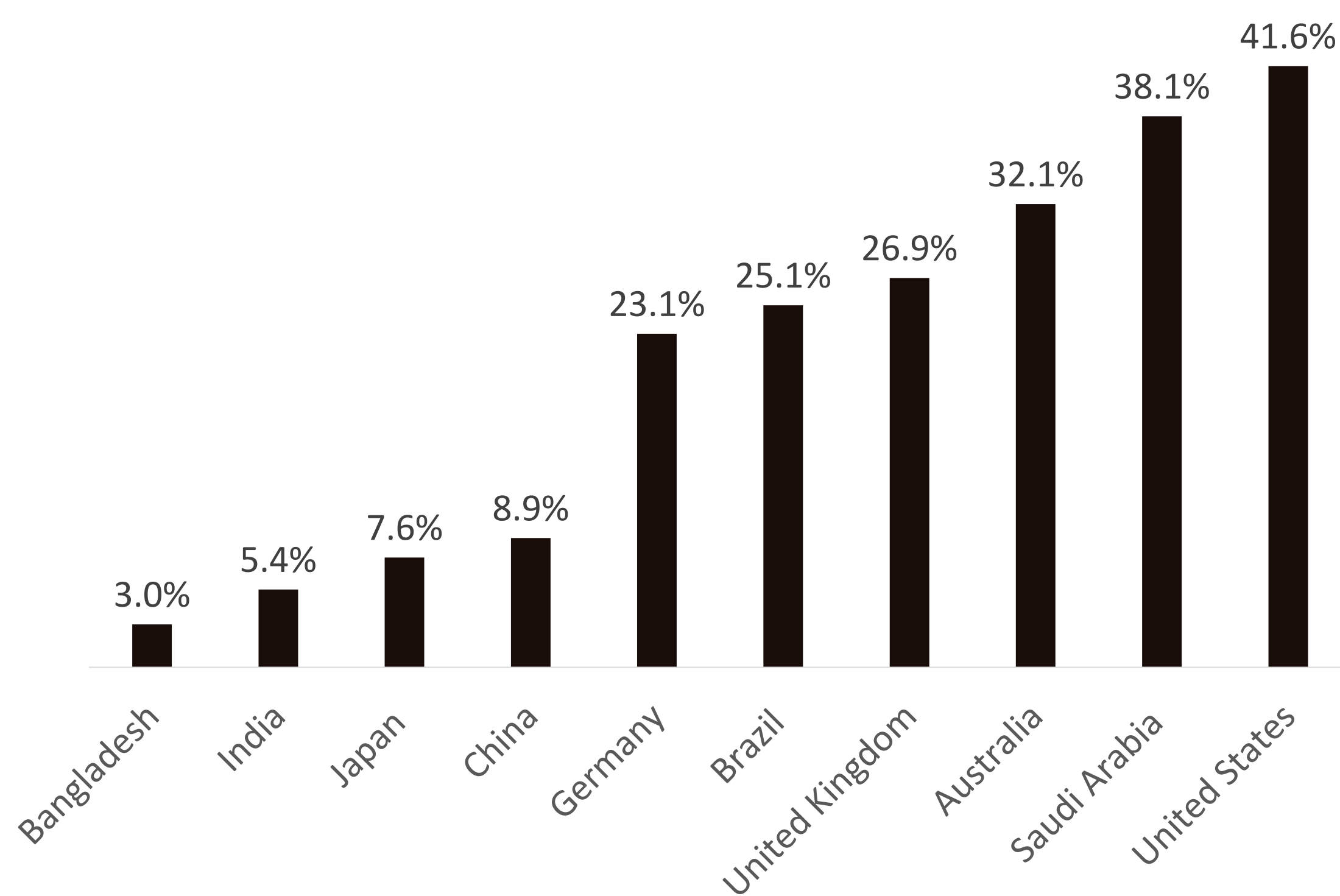


GLP-1: One Pill To Rule Them All

A hormone called Glucagon-Like Peptide-1 (GLP-1) secreted by the intestine lowers blood sugar levels but breaks down rapidly. In 1990, researchers discovered that a hormone in the venom of the North American lizard mimics GLP-1 but lasts longer in the body. Scientists also found out GLP-1 slows gastric emptying, keeping food in the stomach longer and suppressing appetite. In 2021, Novo Nordisk, a Danish company, presented clinical trial data showing overweight or obese patients on a weekly dose of its GLP-1-based drug, semaglutide (marketed as Ozempic), lost an average of 15% of their body weight over 68 weeks. The market for these drugs is projected to grow by 26% per year over the next five years potentially reaching \$100 BN size by 2030. Currently, there are three approved drugs, with around 100 potential competitors in testing.

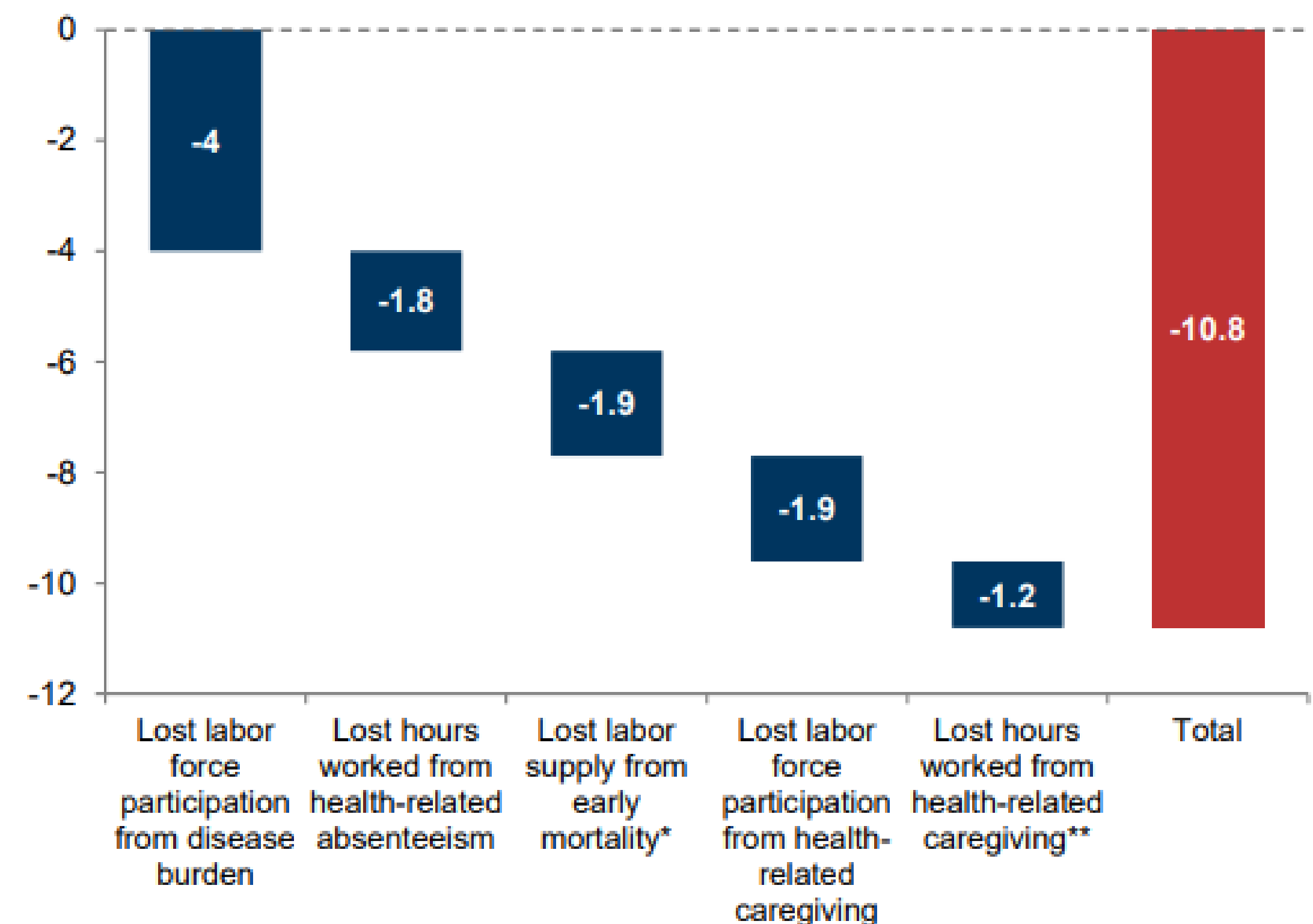
Researchers also claim these drugs might reduce the risk of heart, kidney, liver diseases, cancers, and Alzheimer's. There are complementary products being developed around these medications.

Prevalence Of Obesity (Adult, Males)



Source: World Obesity Observatory

Estimated Impact Of Poor Health On US GDP, %



Source: Goldman Sacs Global Investment Research

Walmart says users of weight loss drugs are buying less food

The retailer used anonymized data on shopping patterns, based on customers who pick up prescriptions and buy groceries at its stores.

Source: <https://www.nbcnews.com/business/consumer/ozempic-drug-users-are-buying-less-food-walmart-says-rcna119000>

Nestlé Introduces Vital Pursuit Brand to Support GLP-1 Users, Consumers Focused on Weight Management

Source: <https://www.prnewswire.com/news-releases/nestle-introduces-vital-pursuit-brand-to-support-glp-1-users-consumers-focused-on-weight-management-302150851.html>

Why the CEO of Oreo Maker Mondelez Isn't Scared of Ozempic

Source: <https://www.barrons.com/articles/mondelez-ceo-weight-loss-drugs-ozempic-sales-eaf31b4b>

GLP-1: One Pill To Rule Them All

DSP

We have 24% sales growth, 30% operating profit growth. As you can see from the slide here 35% growth in North America and 11% growth in international operations. The growth is really driven by GLP-1. We see a 32% growth in GLP-1 in diabetes, 42% growth in obesity. We are very pleased with the progression of the, of course, our GLP-1 business both in diabetes and in obesity.



In January, we launched a new nutrition shake called Protality, which provides nutritional support for adults pursuing weight loss. As people eat less and lose weight from taking GLP-1 medications undergoing a weight-loss surgery or following a calorie-restricted diet, a portion of what is lost is lean muscle mass, which plays an important role in overall health. A combination of high protein and essential vitamins and minerals that Protality offers can help people preserve muscle while pursuing their personal weight-loss goals.



Over the last, I'll make it up five years, we had seen TDS (Total Distilled Spirits) go from 5% to 4% to 3% to 2% to 1%, something like that. I would be concerned that some of those things you just talked about, wellness trends, cannabis trends, GLP-1s, all those types of things, that would be an indicator that something is happening structurally in the business that's going to be permanent, but that's not what we saw. We, as I think everyone on this call knows.

I mean, that 4% to 5% range, COVID moved it around volatility wise, but it has been in that range for decades. And then all of a sudden, if you look at TDS the same, you look at July of last summer and you see a very sharp deceleration in the market, like GLP-1s or cannabis isn't going to take a market and move at 4 or 5 points seemingly overnight. And so I just don't think that's what is, I don't those big macro concerns that are out there are what is impacting the market today.



BROWN-FORMAN

In relationship to your question about GLP and obesity, I think there's two-ways to look at it. You can look at it from a GLP angle and you can look at it from an obesity angle. If you look at from a GLP angle, there has been really important work showing its impact in diabetes and weight loss, more recently in cardiovascular outcomes, most recently in sleep apnea.



GLP-1: One Pill To Rule Them All

We were very pleased with our recent landmark success in our peptide portfolio through securing approval for Liraglutide, a GLP-1 receptor agonist prescribed for diabetes as well as obesity in the UK. This was the first generic approval of a GLP in a major regulated market, represented another first for Biocon, and also represented a clear signal of our capability in development and manufacturing of complex GLP drug-device products.



We have excellent in-licensing partnerships already and built over a period of time. And that relationship will definitely give us, hopefully, an edge over others. And we are a large player in the country. And at the same time, we are evaluating from our side all possible options, our own partnerships, et cetera, because it's (GLPs) a large opportunity overall that we would like to play in India.



Coming to GLP-1 products, as I explained before, we produce protected amino acids with 3 chains or 4-chain amino acids. We are in the process of getting qualified with several customers. Basically, customers are innovators where they are using it for their molecule at their contract sites. We will see opportunities more towards 2025 since the qualification takes time, their impurity profiles take time, they have to get into their filings. The whole process is almost a 1-year process once the qualifications are completed.

3QFY24

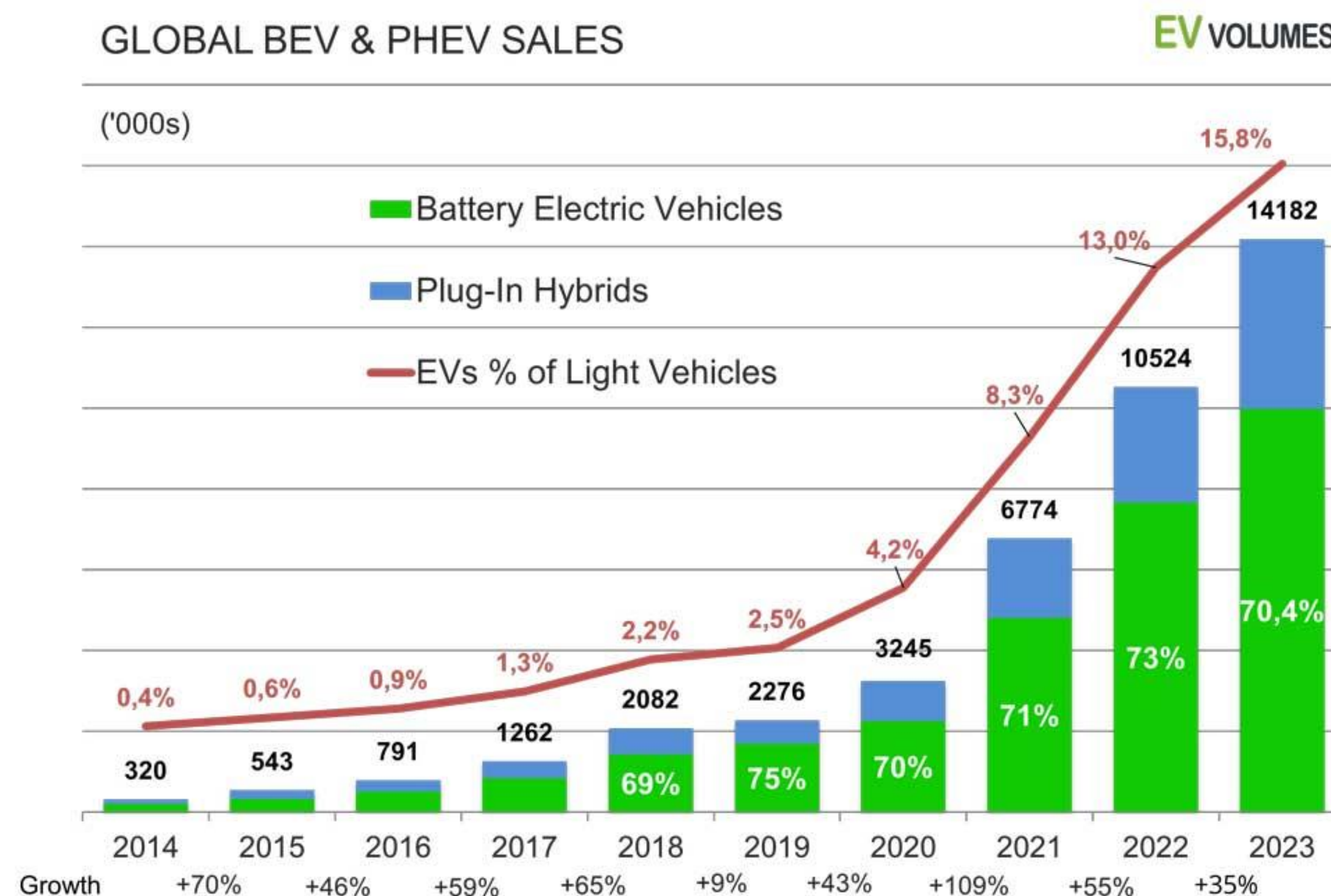


Hybrids vs. BEVs: Stopgap Or Solution

The automotive industry is witnessing a resurgence in hybrid car sales, exceeding some analysts' predictions. This trend is particularly evident in China, where the market share of plug-in hybrids has doubled from 12% in early 2021 to 24% currently. Extended range electric vehicles (EREVs) have also seen significant growth, increasing from 2% to 8% in the same period. This rise in hybrid popularity has sparked renewed debate within the industry:

Government Incentives: Should governments continue to incentivize hybrid purchases? This might delay the adoption of EVs and in case of plug-in hybrids concerns exist regarding the actual environmental benefit if plug-in hybrids are primarily used as ICE Vehicles.

Future of Hybrids: Are hybrids simply a transitional technology towards full battery electric vehicles (BEVs), or do they have a long-term role to play in the automotive landscape? The significant investment required for developing new platforms is a key consideration for car manufacturers.



Source: EV-Volumes.com

Earlier, I used some slides to explain the situation in fiscal year ending in April 2023 and 2025. The electric vehicles increased by 1 million, and of that, 900,000 units were hybrid vehicles. The major regions in which the increase was achieved, North America was at the top, followed by Japan, and China.

In North America right now, roughly speaking, at the dealer level, the inventory days is 15 days. But as far as hybrid vehicles are concerned, it's between 5 days to 8 days. It continues that hybrid vehicles are selling extremely well in the North American market. The major factor in the background is most of the models of Toyota have the hybrid versions added to that in the lineup.

At the same time, you mentioned that hybrid used to be the alternative choice, but is it going to be the mainstay powertrain? As we have been constantly saying, for Toyota, the enemy that we need to address is the carbon. For us to achieve carbon neutrality, we have been trying to sell hybrid vehicles. Since the introduction of Prius, that permeated quite well in the North American or US market. It has been recognized as a main player. In addition, hybrid is synonymous to low fuel consumption, and the acceleration performance, the ride comfort, and overall performance of hybrid have improved. It has become an extremely attractive vehicle. It has those appeals.



TOYOTA

(It has been indicated that there's no GST reduction being taken on board for hybrids). It's not surprising to us, given that that's been a very constant imperative of this government, that we have to drive EV penetration in India. And they're doing everything to enable the category to move towards that.

I think a lot of people are tending to compare India with the rest of the world. I don't think this is the right thing to do at the moment firstly because we are -- our EV penetration is 2%. The others are reaching some kind of a saturation after having reached 15%, 20%, 25%.

So we are really, in our mind, very clear that what we are setting out to do is stay consistent with what our brand stands for, what we are offering, exciting, very good products. Electric has the benefit of a wow drive experience. I mean, it's just an amazing driving experience apart from the quietness, the acceleration, all of that.

Today, as we analyze our portfolio of customers, it is very different than what we had five years back. Five, seven years back, customers bought a Mahindra because they wanted fuel efficiency. Today, that's amongst the least important buying reasons amongst our portfolio of customers. So, we don't see hybrid wanting customers actively cannibalize us, except in some very few segments at an appropriate time, depending on how the category is moving, we will look at hybrid wherever we need.

Hybrids vs. BEVs: Stopgap Or Solution

I think, we have been very clear, one, that this is a speculation that the hybrids are going to get any benefit from a GST perspective because we have seen that government has been firmly behind EVs, given most of the issues that the country is facing in terms of acute pollution or import dependence on fossil fuel. And also given that there is a net carbon zero plus that the country has taken, and therefore it's an imperative to accelerate EV adoption.

we have the ability to develop any technology which will be needed in future. But as of now, we are very sharply focused on electric vehicles because we feel that, that's the destination technology in the auto industry.



Hybrid vehicles have seen a good traction and now the share of Hybrid vehicles has increased to about 2%. EV penetration was also at about 2%

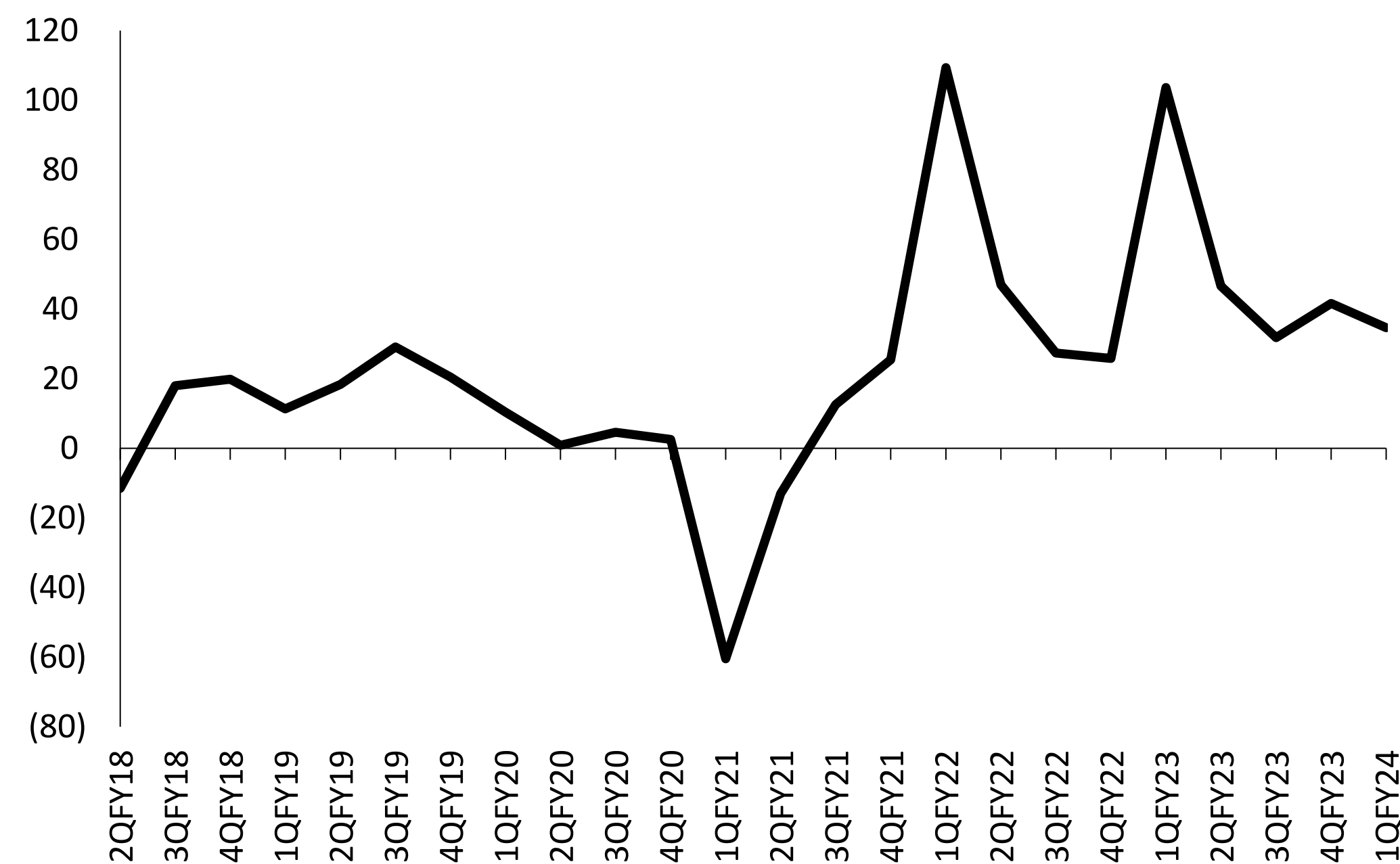


Building Materials: **Catching Up**

Residential sales have been strong, with new launches growing by 50% compared to pre-COVID levels, while unsold inventory has declined by almost 20% (Source: Goldman Sachs Research). From 2010 to 2013, new launches had decreased by nearly 30%. Despite a significant increase in the number of developers, Grade A developers have continued to gain market share. These new launches are expected to be completed by 2027-2028.

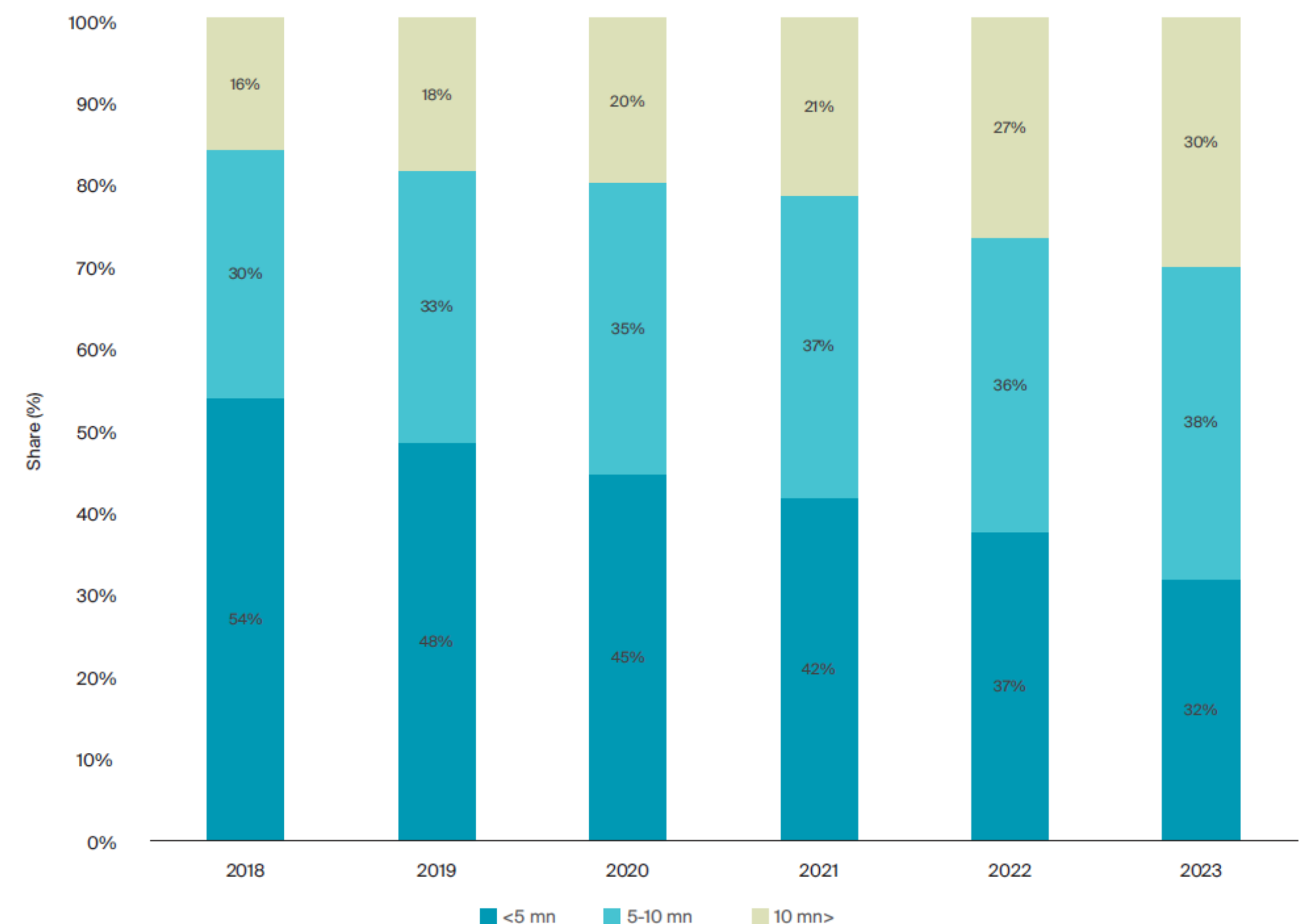
One reason residential sales have not resulted in proportional growth for building materials like tiles and plywood is the timing of demand within construction stages. Segments such as steel and cement see demand first, followed by wires and cables, paints, and sanitaryware. Tiles and plywood are typically required during the fit-out stage of completion.

All India Residential Sales Growth (All India, %, YoY)



Source: Kotak Institutional Equity

Share of Luxury Projects Has Gone Up (Top 8 cities)



Source: CII, Indian Real Estate: A Decade From Now

The demand for our products is correlated to the occupancy of new housing units, as our products are used for the interior of houses. The demand for our product comes only after the apartment is ready for occupation. Any real estate project, depending on its size, has a time horizon ranging from 4 to 6 years or say average 5 years. Out of these 5 years, 3 years are for the superstructure stage – steel, cement, pipes, bricks, etc., are used. After this comes at the second stage of completion of the house where tiles, paint, sanitary-ware, electricals, doors, windows, glass, elevators, etc., are required. After completion of 5 years when the building is completed and the apartment is handed over to buyers for occupation, interior work-related materials like plywood, laminate, fitting, drapery, and other home improvement products are required.

3QFY24



So, when we are talking about the real estate upswing, so definitely, there is a real estate upswing. But as far as our products are concerned, sanitaryware and faucet ware, generally means these products, if you see, they are installed at last stage of the project. And we see that in the last year, there are projects which are near to completion, and we have a good project bank right now available. So definitely, it's a phasing impact which is there. So, this real estate upswing will provide us sort of the projects and other things, and that will be encashed in this financial year.



As we are aware, the construction industry is now on the right front and as they say, your tile demand comes T +1 (years). So, from this year onwards we see a very good demand coming in for tiles.

The year which went by has been one of the toughest years on the demand front. Now you will ask why. You all always ask though real estate is doing so well, why is tile not being sold. See, real estate was very bad for the last so many years. First they sold their inventory. Last year they started the construction where they did the civil part. This is the year where they will finish the finishing part where paint, tiles, sanitaryware, all will be used.

Kajaria

Massive real estate projects being announced, being constructed, being at various phases of construction at the moment across the country will come up for interior fit-outs maybe in the next couple of quarters and clearly, we'll see a great demand at that point

 **Greenlam**
LAMINATES

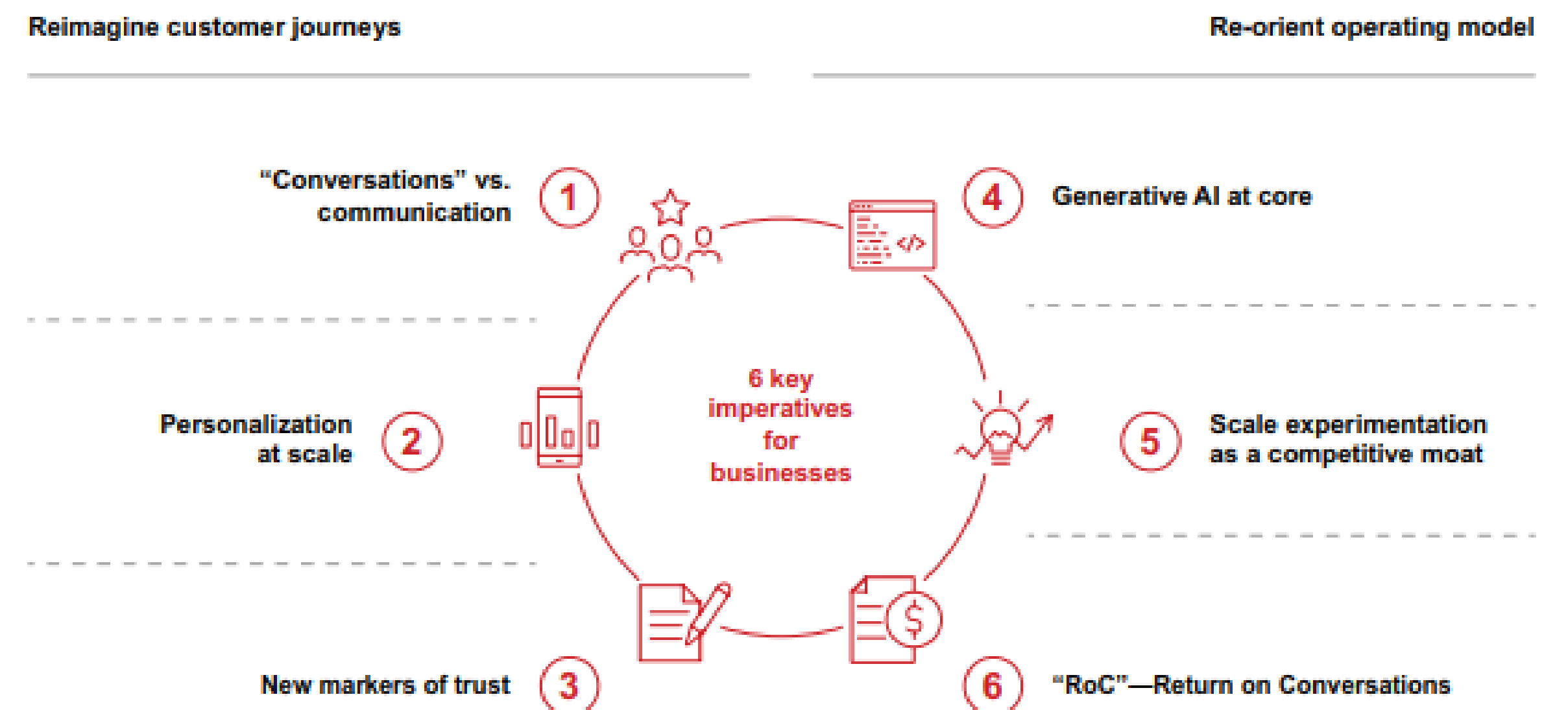
AI Chatbots: No Small Talk

According to a study by Bain & Company over 60% of enterprises plan to increase spending on conversational platforms in the next three to four years, focusing on creating complete customer journeys. Generative AI is a top priority, with about 95% of surveyed Indian businesses familiar with it and over 80% planning to invest in generative AI solutions within the next one to two years.

Over half of surveyed users prefer to use chat for tasks like banking, travel info, utility payments, and booking LPG cylinders.

To stake a claim in this opportunity, businesses must follow six key imperatives to craft a winning playbook:

1. **Conversations vs. communication:** Reimagine end-to-end customer journeys, interweaving a seamless thread of conversation across every touchpoint
2. **Personalization at scale:** Harness the power of generative AI to deliver highly personalized experiences across each customer interaction
3. **New markers of trust:** Establish credibility through digital markers of trust, signaled through hyper-personalization, to persuade customers to engage and make purchases through a chat-based interface
4. **Generative AI at core:** Embed generative AI in the organization's DNA to create a competitive advantage and stay ahead of the curve
5. **Scale experimentation as a competitive moat:** Start experimenting across diverse journeys and adopt an agile "test and learn" mindset to identify and scale the most fitting use cases within a specific context
6. **Return on conversations:** Define a new and clear measurement framework based on business objectives to gauge returns on end-to-end conversational journeys



Source: Bain & Company
https://www.bain.com/globalassets/noindex/2024/bain_report_win_with_conversations.pdf

We do see introduction of AI enabled PCs and AI enabled smartphones, and a lot of things. The environment is heating up in that. We are making sure that our go to market is ready for taking on these opportunities.



Sparsh, our Customer Obsession program, is helping improve relationship and transactional intensity with our customers. Our GenAI conversational chatbot is empowering frontline employees to efficiently address queries on core products.



Last quarter, I spoke to you guys about the music learning app that will teach music fans how to sing or play instruments using artificial intelligence. It also helps promotions of the newer songs that we are releasing. We did the soft launch of that in April, and we will continue refining this app over the next two, three months before we start pushing it.



Our ongoing investment in leveraging AI and digital technologies to modernize legacy systems has resulted in the onboarding of significant new business with minimal human intervention in underwriting. This substantially increase our capacity to process peak months business with minimal human resource augmentation. Additionally, migrating to our core policy admin systems to the cloud has improved system performance by threefold. Our consistent focus on enhancing the e-commerce journey has led to an increase in purchase net promoter score which now rivals that of best in class digital native players. By leveraging generative AI, we have introduced Sales genie, a virtual agent training companion for frontline sales and launched several marketing and product campaigns.



We have successfully implemented GenAI-powered use cases on our consumer platform stack to strengthen our two Vs - vernacular, verticalization strategy to drive greater innovation as well as operating efficiency. Our GenAI-powered multilingual keyword recommendation engine has delivered success for our customers across all key industry verticals.



NOBODY KNOWS...

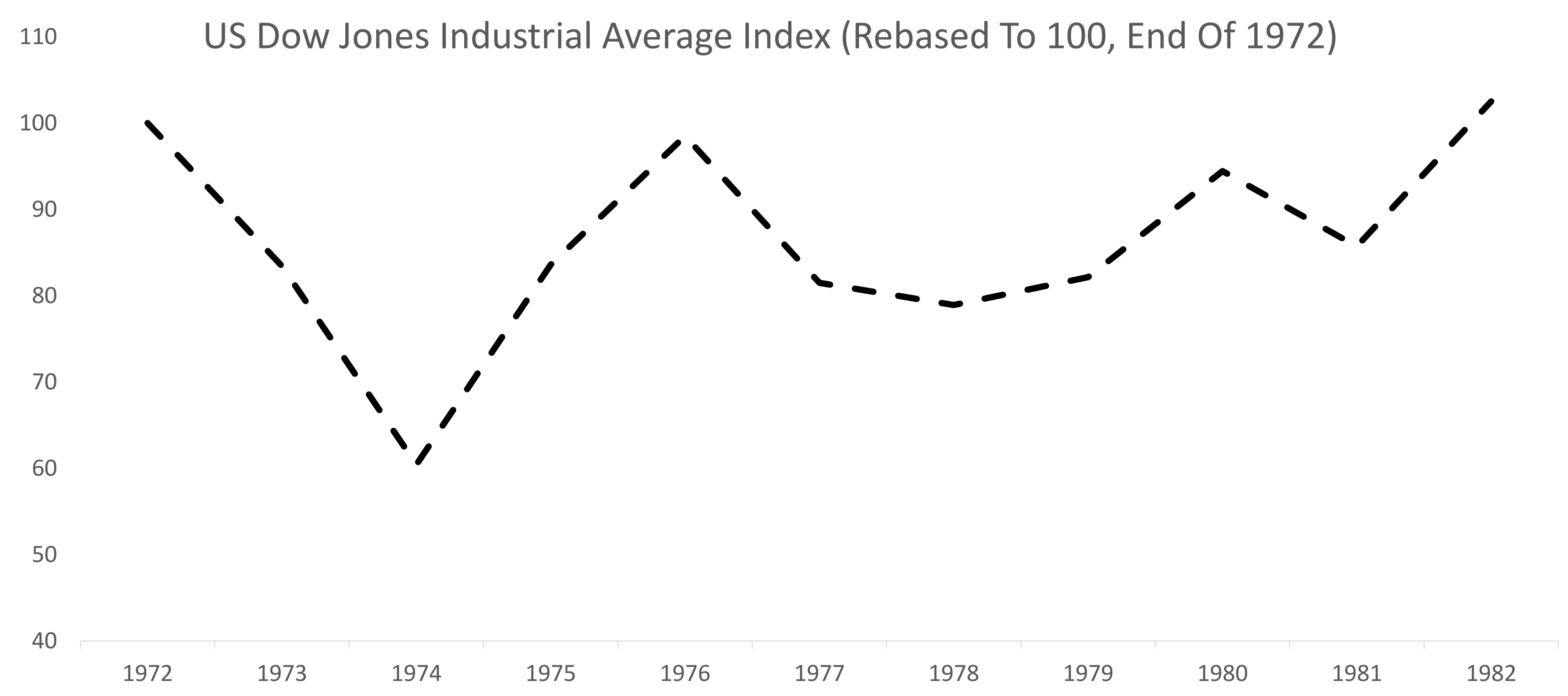
“It’s very rare that you can be as unqualifiedly bullish as you can now”.

Alan Greenspan, Jan 7, 1973
American economist & 13th Chairman of the United States Federal Reserve



1973-74 were the worst years for US stock markets and economy since Great Depression.

Year	Returns
1973	-16.6%
1974	-27.6%
1975	38.3%
1976	17.9%
1977	-17.3%
1978	-3.2%
1979	4.1%
1980	14.9%
1981	-9.2%
1982	19.6%



Source: The Intelligent Investor, Macrotrends

For feedback, please write to: TheTranscript@dspim.com

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