The Transcript

Jun – Sep 2023

#INVESTFORGOOD

DSP

This is a compilation of observations & comments from AGMs/ Concalls/ Interviews/ Presentations.
The compilation should not be used for investment decisions. Read our disclaimer below and at the end.

SEGMENTS

1. **Electrical Cables:** Shipping Up To Boston
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QUOTES OF THE QUARTER

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Just because a promoter is there, one should not assume a professional is not there.

Rajiv Goel HAVELLS

Plans need to be built and tested – before they can be shared.

Mohit Joshi TECH mahindra

Electrical Cables: Shipping Up To Boston

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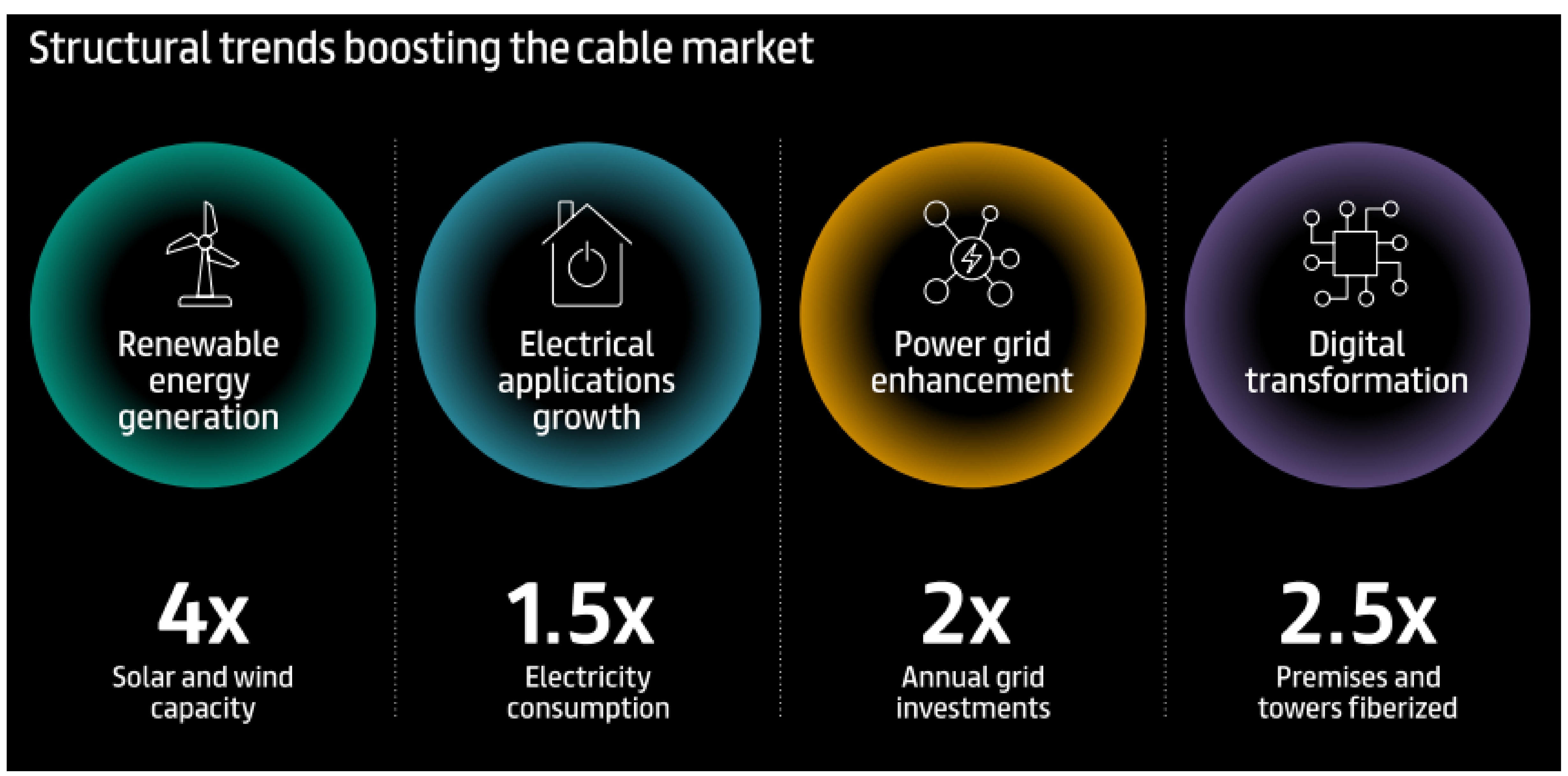
Exports revenue for most cable manufactures with production capacity, has picked up sharply in the last few years. This is primarily driven by substantial investments in power grids in North America & Europe. Most countries in these regions have extremely stringent technical standards and compliance requirements. The growth in exports is coming at a time when domestic growth on back of infrastructure spending is also strong.

For a long time, cables were considered a commodity and most players in the space traded at mid-teen earnings multiples. The rerating in the valuations of these companies is based on the belief that we are just at the beginning of the cycle and the emergence of more intricate applications is necessitating the production of sophisticated cables, thereby enabling manufacturers to capture more value in the process.

Large global players like Prysmian and Nexans have indicated strong order books as well. Although unlike Indian players their multiples – remain relatively muted.

Demand: 2030 over 2020



Source: Prysmian Group

Exports Revenues

		Revenue (Rs bn)		
	No. of countries	FY21	FY22	FY23
Apar	~100	2.5	6.4	16.6
Polycab	~72	7.5	8.4	13.8
RR Kabel	~63	5.8	10.1	12.7
KEI	~60	6.3	5.9	6.9
Havells	~70	3.6	5.0	2.9
Finolex	US/UAE	0.3	0.2	0.4

Source: Goldman Sacs Global Investment Research

Electrical Cables: Shipping Up To Boston

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Out of the EUR20 billion (backlog), we will consume EUR13 billion to satisfy our revenue from now (2023) through 2027. So there will be EUR7 billion worth of orders left at the end of 2027, which will mature in '28, '29, 2030.

All of us, not necessarily Prysmian Nexon and Katiba, also the other players are fully booked through the same period of time, with some little exception for a competitor which I cannot name. All the others are fully booked not on the existing capacity, but also on the planned capacity that all of us have decided to unlock in the next three, four years.

Prysmian Group

Very strong visibility on manufacturing/installation assets up to 2030. So, now if we have to take orders, with the exception of risk of cancellation, we are working on 2029 mainly, 2028, 2029, up to 2030.

Nexans

Electrical Cables: Shipping Up To Boston

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We have those capacities available. We have those approvals available in various geographies. And we are incrementally looking to add new geographies as well. So, in the mid-to-long term, we believe that international business can be a big revenue generator or a contributor to the business top line and bottom line.

POLYCAB
IDEAS. CONNECTED.

There is a good spending in power distribution and infrastructure in the United States. And capacity over there is definitely lacking because for many years, they have not increased their industrial base for manufacturing of cables. And definitely, we are getting some benefit because of China Plus One policy, followed by Europe and USA.

We have the strategy to grow 16% to 17% per annum. Our focus is to add more and more geographies and add more and more customers in our kitty. So that (if at any given point of) the retail is lower, domestic institution is lower, this (capacity), too, then can be contributed to exports. Otherwise, we have to grow only 16% to 17%. Our target is not to grow 30%.

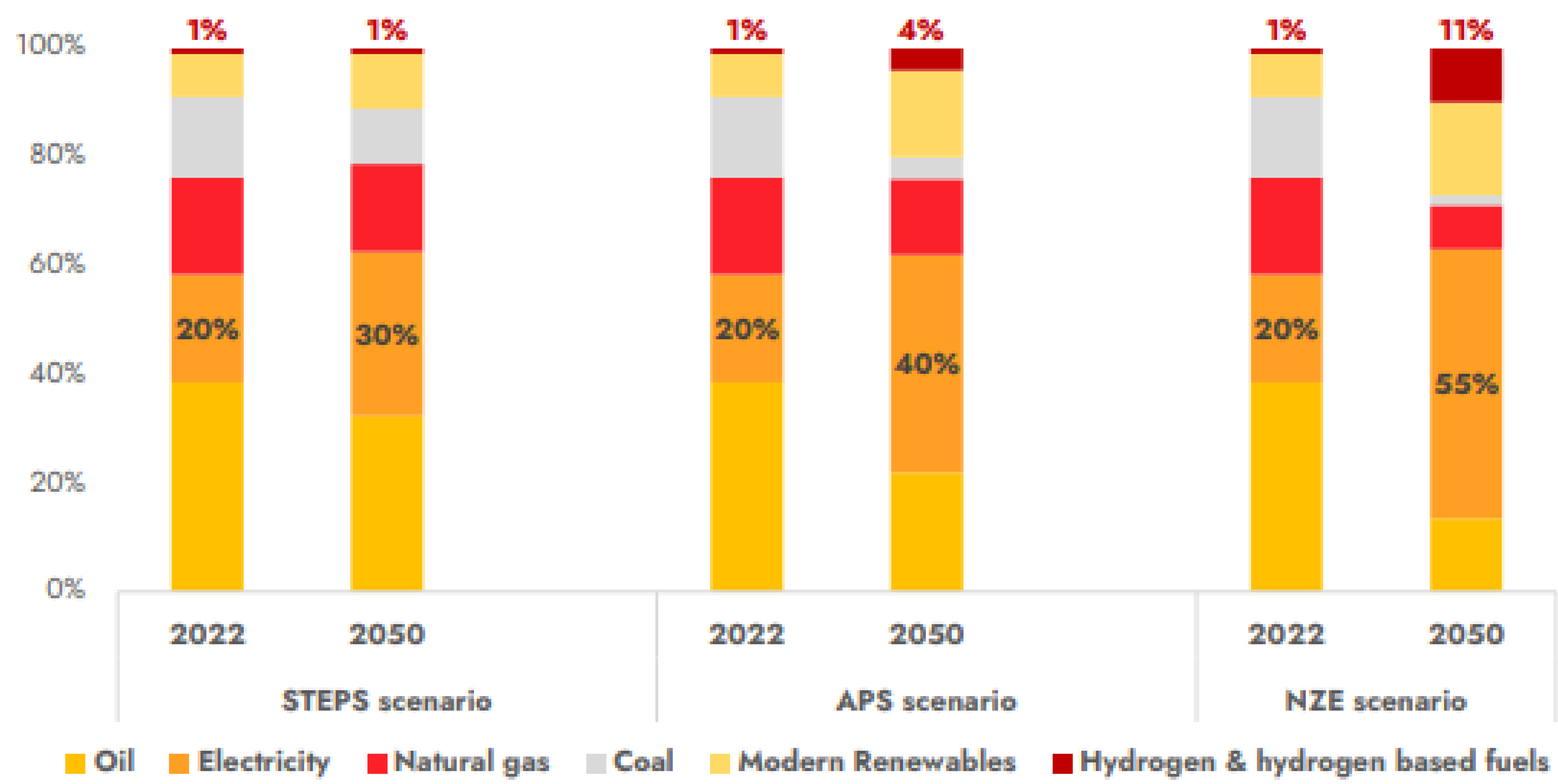
KEI
Wires & Cables

Electrical Cables: Shipping Up To Boston

DSP

Share of electricity and hydrogen in final consumption may grow to ~40% under the APS, ~55% under the NZE

Share of global total final consumption by selected fuel and scenario, 2022-2050



Source: IEA, CRISIL MI&A

- Total final energy consumption (TFC) is 442 EJ in 2022
- In the STEPS, TFC rises by1.1% per year to 2030 and then continues to rise at a slower rate through to 2050.

TFC is expected to rise by 20-25% in 2050 compared to 2022 based on STEPS scenario

Stated Policies Scenario (STEPS): This scenario is designed to reflect the impact not just of existing policy frameworks, but also of today's stated policy plans

Announced Pledged Scenario (APS): The Announced Pledges Scenario (APS) assumes that all aspirational targets announced by governments are met on time and in full, including their long-term net zero and energy access goals

Net Zero Emissions by 2050 Scenario (NZE): The scenario maps out a way to achieve a 1.5 °C stabilization in the rise in global average temperatures, alongside universal access to modern energy by 2030

APAR
Tomorrow's solutions today

Thermal Power: Give Me More

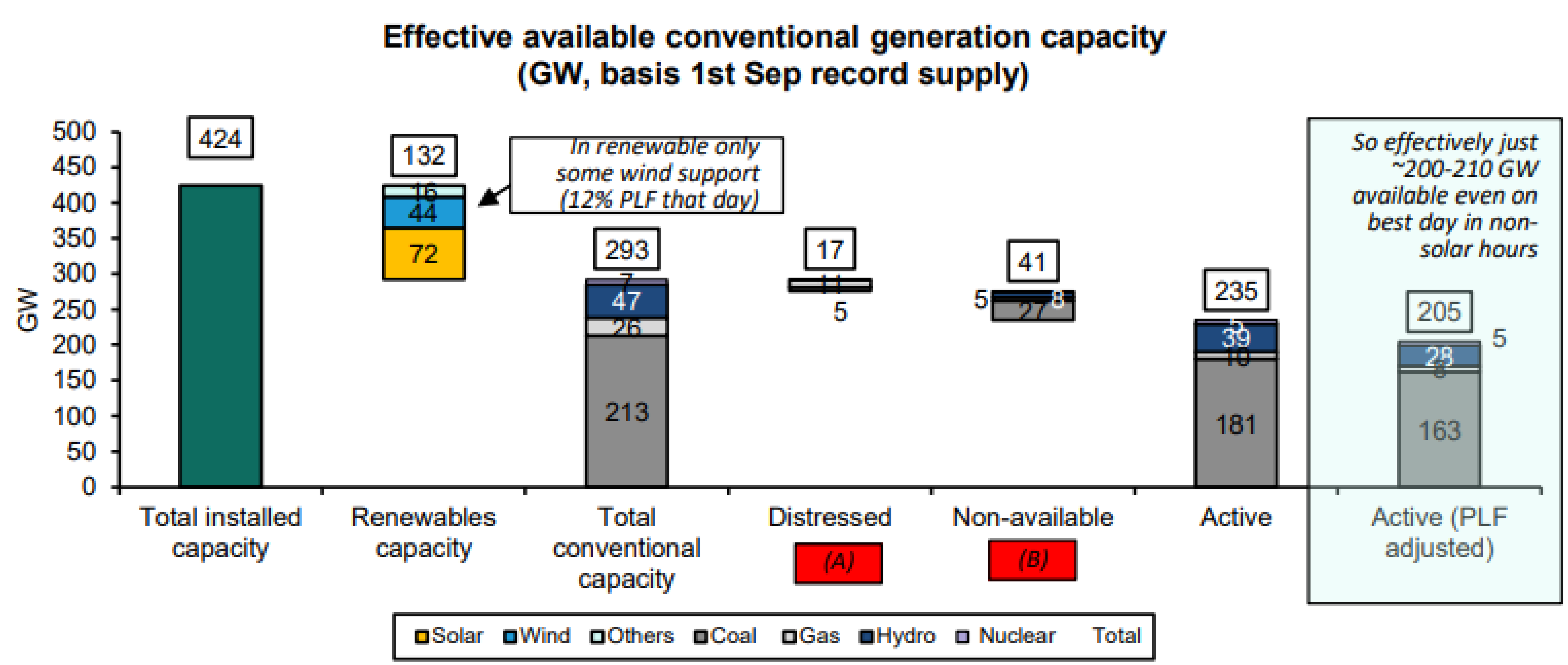
DSP

Indian Power Ministry recently held interactions with industry stakeholders to review 80 GW Thermal Power Capacity addition by 2031-32. This number is higher than earlier expectation of about 50 GW. Union Power and New & Renewable Energy Minister Mr. R. K. Singh urged the industry to invest in thermal power. He said:

"Power demand of the country has increased at an unprecedented rate due to rapid growth of the economy. India needs 24x7 availability of power for its economic growth; and we are not going to compromise on availability of power for our growth. This power cannot be achieved by renewable energy sources alone. Since nuclear capacity cannot be added at a rapid pace, we have to add coal-based thermal capacity for meeting our energy needs."

(Source: https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1978680)

Out of 424 GW installed capacity only ~ 200-210 GW available in non-solar hours even on the best day



** Factoring in utilization of active assets - 90% coal, 86% gas, 72% hydro, 100% nuclear*

Source: CEA, Bernstein analysis

Thermal Power: Give Me More

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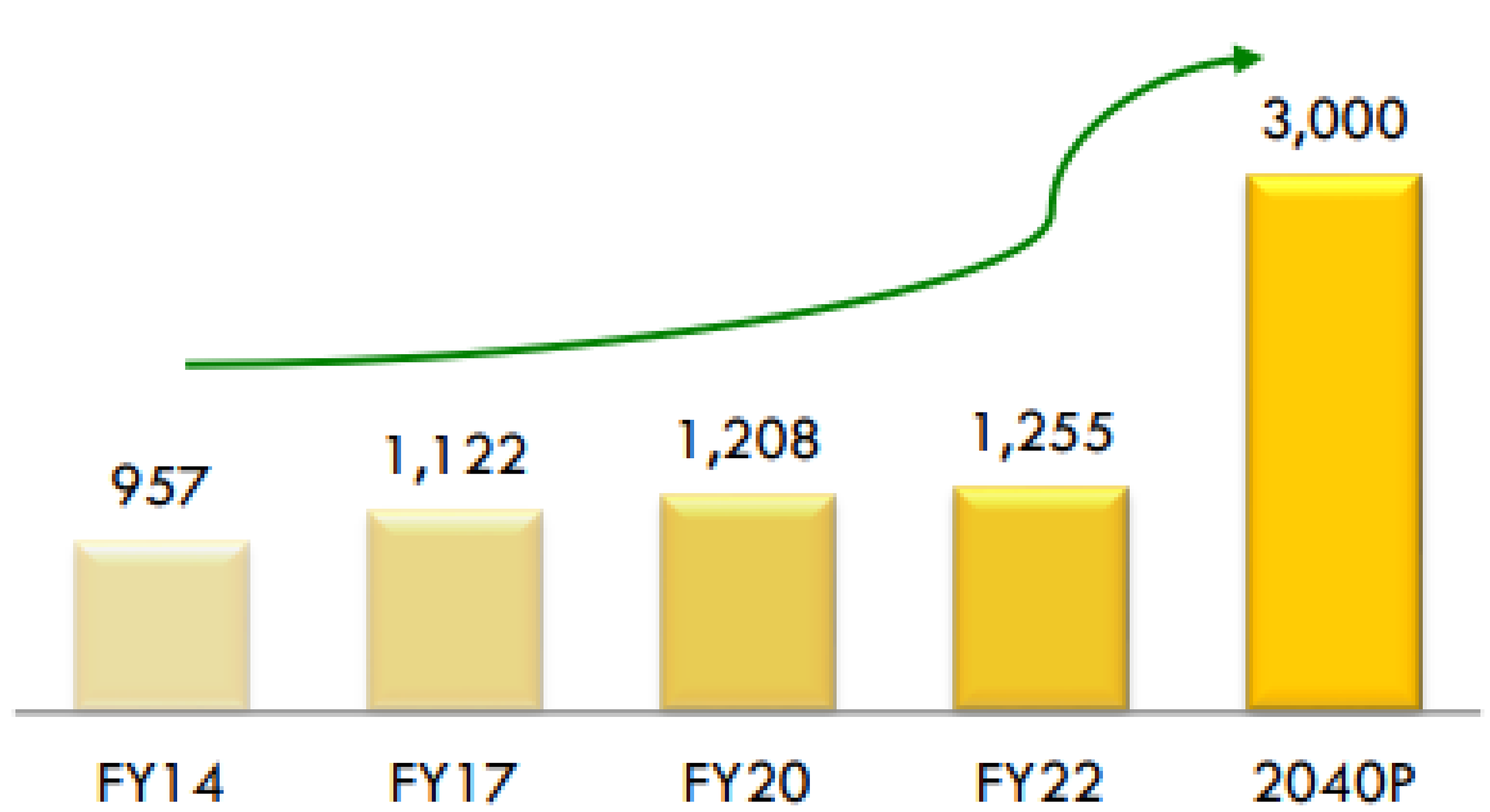
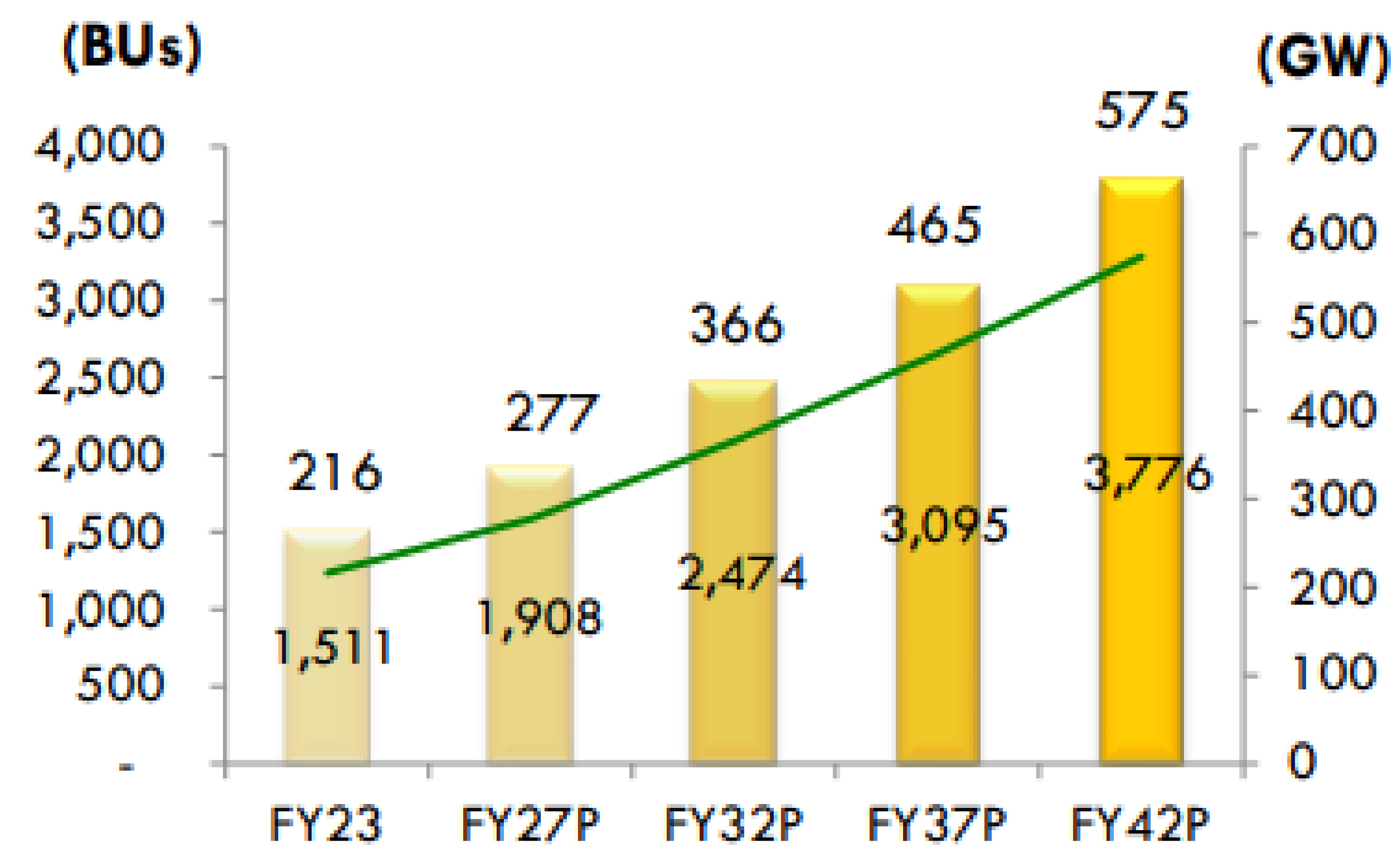
Increasing Per Capita Consumption (kWh/Year)



Projected Energy requirement & Peak Load



	FY23	FY32
Installed Capacity	416 GW	900 GW
Renewable Capacity (Incl. Large Hydro)	172 GW	596 GW
Generation (in BUs)	1624 BUs	2,666 BUs
Peak Load Demand	216 GW	366 GW
Per Capita Consumption	1,255 kWh	2,100 kWh
Coal Requirement	800 MT	1026 MT

एनटीपीसी NTPC

Thermal Power: Give Me More

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The banks normally give shorter tenor loans and with the introduction of renewable energy into the grid, the flexible operation of coal based thermal power plants would become very important actually. Right now technical minimum for coal based power plant is about 55% and going forward with more injection of renewable energy into the grid, we might have to operate coal based thermal power plant toward 40% of PLF. That will require investment for traditional coal based power plant also for enabling their flexible operations.

1QFY24

आरईसी REC
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Endless energy. Infinite possibilities.

In the month of October till date, the power demand is up in excess of 19%. So, all in all, we have been seeing a very robust trend of a very high power demand and because of which we are seeing a very high power deficit, the kind of a deficit which we saw in 2004 to 2006 period. And remember that time the grid capacity was minuscule at that point of time, close to 85 gigawatt and today it is 200 gigawatt. So the kind of a power deficit at this kind of a grid size it translates to a large shortage of the power capacity.

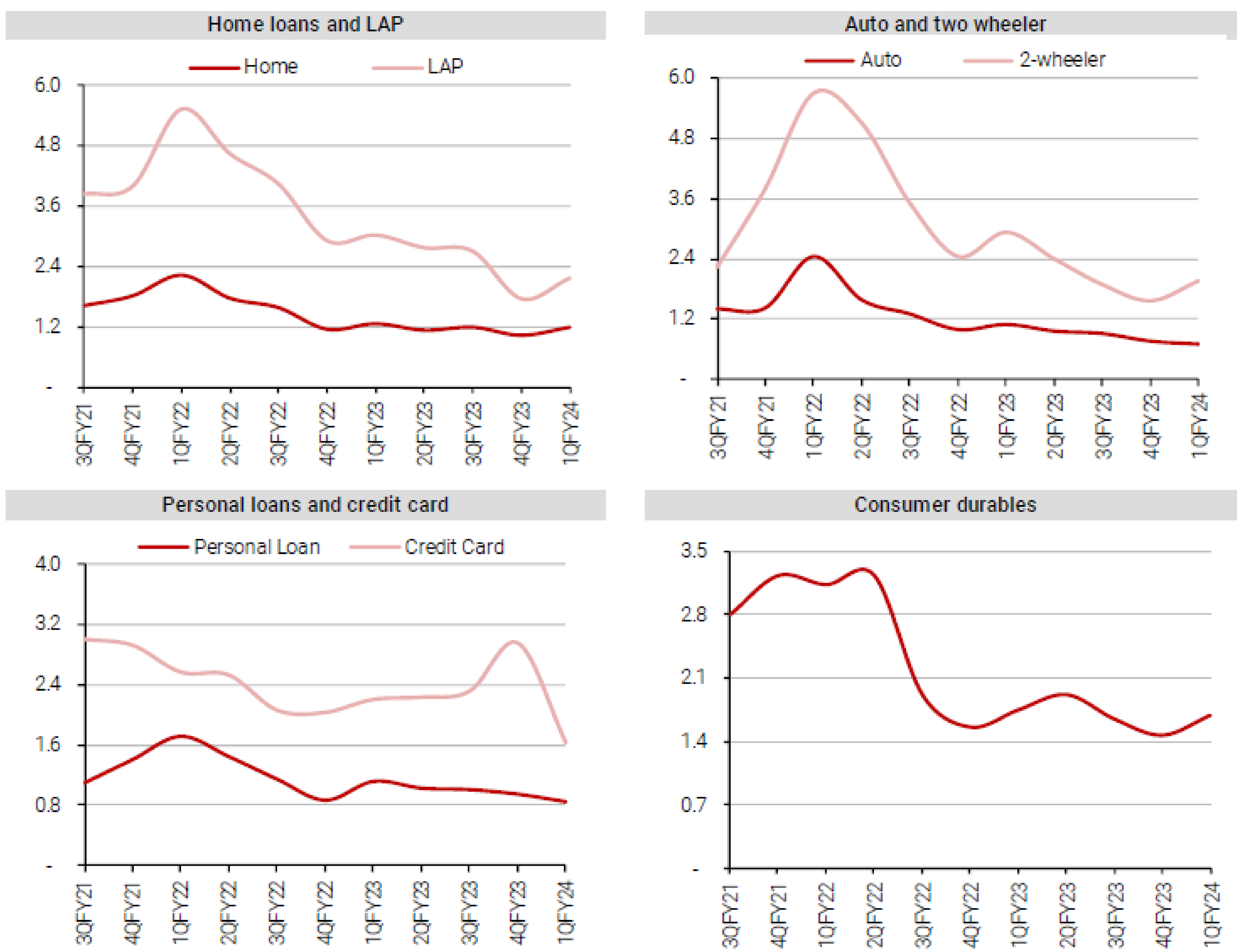
JSW Energy

Unsecured Lending: Carpe Diem

Most lenders have shown strong growth in unsecured segments at a time when the credit cycle is benign. The stress in unsecured segment, in a lot of cases, is lower than that in the secured segment. However, the regulator expressed unease and advised prudence while tightening capital requirements—a stance reflective of conservative and responsible financial practice. Preemptive vigilance might elongate the duration of this cycle. Most large lenders have created buffer provisions.

Historically most disruptions or credit events have led to larger players gaining market share.

Balance-Level 90+ DPD (Days Past Due)



Source: CIBIL, Kotak Institutional Equities

Balance-level 90+ DPD by Product (Jun-2023)

Product	90+ Rate	YoY Change (Bps)
Home Loan	1.21%	-0.12%
LAP	2.18%	-1.01%
Auto Loan	0.69%	-0.24%
Two-Wheeler Loan	1.97%	-0.78%
Personal Loan	0.84%	0.4%
Credit Card	1.63%	0.17%
Consumer Durable Loan	1.68%	-0.01%

Source: Cibil

Unsecured Lending: Carpe Diem

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If you take 2020, 22 and 23, in terms of count of loans that India was dispersing, all personal loans have grown from 4.5 odd crore in 2020 to seven odd crore by 22, and last year, it was 10.5 odd crore, 10.7 crore, to be precise.

The larger growth principally seen was less than 50,000 and an 8 lakh plus, just at a frame level. The total (personal loan) AUM looks to be like 13. 5 lakh Cr. It grew from 7.5 lakh crore in FY 20 to around 13.5 lakh crore.

At the industry level, 93.73% of the total balances of 7.6 lakh core, used to be current in FY 20. That number, in FY 22, was 91.75% current. And that number in FY 23 is 92.21% current, industry level, this is.

When we look at that versus us, we look like, in FY 20, we were at 98.2% current. As of 22, we were 97.12% current, and as of 23, we are at 98% current. So, when we look at this data, what they also told us is that less than 50,000 is really where a lot of corrosive outcomes are. And what level two told us is that, principally, those who have more of them, it doesn't mean they're more leveraged, but those who have more of them are more imprudent.

BAJAJ FINANCE LIMITED

Unsecured Lending: Carpe Diem

DSP

RBI Governor has been calling out the growth in personal loans for quite some time and obviously if the regulator is calling it out, we have to take full cognizance of what is being said. On the flip side, we obviously have our risk guard rails. We're monitoring it very closely and we are very clear in our minds that the growth in personal loans, if it comes, it has to come not at the cost of risk guard rails or lowering our risk, but it has to come because we are reaching out to more customer segments, our distribution reach has improved, our overall efficiency of the process has gone up and so we are able to get at the same risk quality, more customers and so we are able to grow that portfolio.

So, Rs 50,000 and below is where we believe there is stress that portion for us is almost nil. We don't play in that segment and we have consciously chosen to be away from that segment. Historically, if you see large part of our personal loan sourcing is from ETB (existing to bank vs. new to bank) customer and as we grow, that number has maintained. The number last quarter also was 83%. Contribution from ETB segment, this quarter also the number is 83%.

AXIS BANK

Unsecured Lending: Carpe Diem

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We track this portfolio quite closely and we have been doing so for the past several quarters. As far as our portfolio is concerned, we feel that the trends are quite stable and the credit delinquencies and credit costs are well within what we would have sort of expected them to be.

As far as the industry outlook is concerned, we have also seen some research which makes this distinction between the smaller ticket size loans and the larger ticket size loan. As far as our portfolio is concerned, we have a very minimal presence in the smaller ticket size segment.

ICICI Bank

As far as we are concerned, we are giving unsecured loans to those who are maintaining salary accounts with us. So, we have got a very clear visibility in terms of the fund flow for such entities, I mean, such customers and that is something which is helping us in terms of mitigating the risk in the unsecured book.

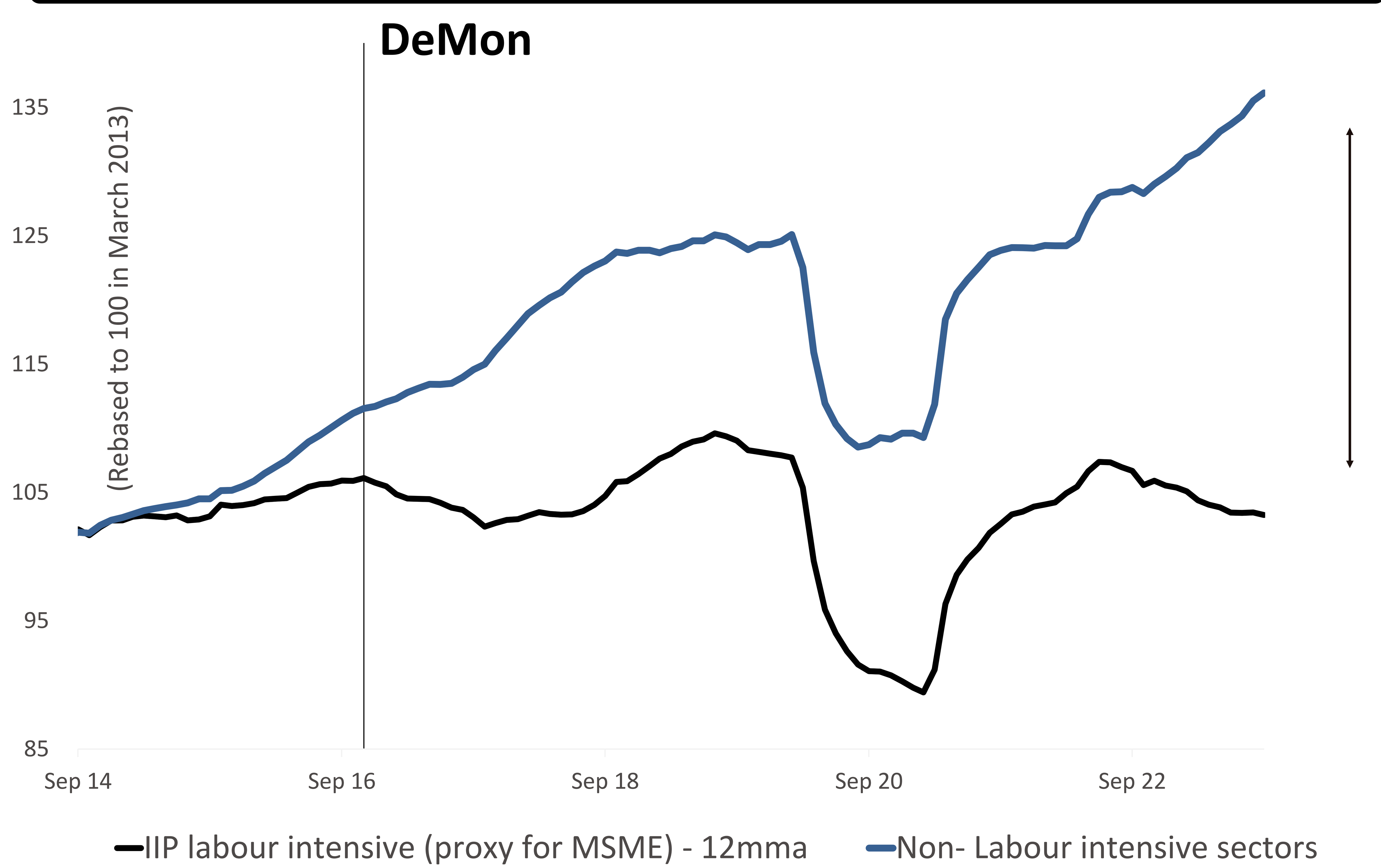
SBI

Unorganized: Periphery Strikes Back – Part II

In our Sep-Dec 2022 edition (https://t.ly/agLST), we debated the possibility of the unorganized sector responding after the disruption and pain of Covid. As inflation cools down lot of smaller players have come back in the market. Many of them are trying to be more organized as well. Reforms like GST is enabling access to better financing. At the same time new distribution channels give them access to markets previously unavailable. A lot of companies are facing competition at high end from D2C new age companies as well as smaller players adapting to the new reality.

Although aggregate data points are not pointing towards a resurgence. Labour intensive IIP which is a rough proxy for unorganized has been lagging Non-Labour Intensive IIP. Its puzzling.

IIP Labour Intensive vs. Non-Labour Intensive



Source: CMIE, Internal

Unorganized: Periphery Strikes Back – Part II

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FMCG market continues to witness heightened competitive intensity. As we spoke during June quarter results, we are seeing the resurgence of small and regional players in select categories and price-points, many of whom had vacated the market during the peak of inflation. For instance, when you look at Tea or Detergent bars, smaller players are growing significantly ahead of large players.

Hindustan Unilever Limited

Amidst the current cost scenario, the sector also witnessed much more active participation from smaller local players in select mass categories. However, pricing cuts taken by frontline FMCG companies to pass on value to consumers should aid recovery and volume growth over the next few quarters.

marico

There has been a lot of intensity both from local, regional players and also some competition. I mean that has always been there, now it is a little more intense.

Jyothy labs

Unorganized: Periphery Strikes Back – Part II

DSP

In certain parts (smaller players) have revived especially in certain products like water thinnable primer or solvent thinnable primers which is in the lower end of the spectrum. There is some amount of revival from these local players, but at the same time we have got competitive products now in this price range both in terms in the emulsion category and also even in the primer. So though they may have revived and some gain might come to them from other companies as far as Berger is concerned we have remained more or less, unaffected so far by this unorganized segment.

Since 1760 Lewis Berger Paint your imagination

What happens is that in inflationary times there are these smaller players who just go out of business, right, because they cannot get there with the cost structures that they have. And their cost structures are mainly around giving much higher margins, giving bigger discounts, so with all that put together, it becomes very difficult for them to make ends meet, but once the commodity prices start to come down - and I've heard this commentary from a lot of FMCG companies this quarter, but once the commodity prices start to drop, they again start to give big discounts and big margins. And they start to come back to play in the market. And that's what's happened with most FMCG categories this quarter, so you've got to be vigilant.

BRITANNIA

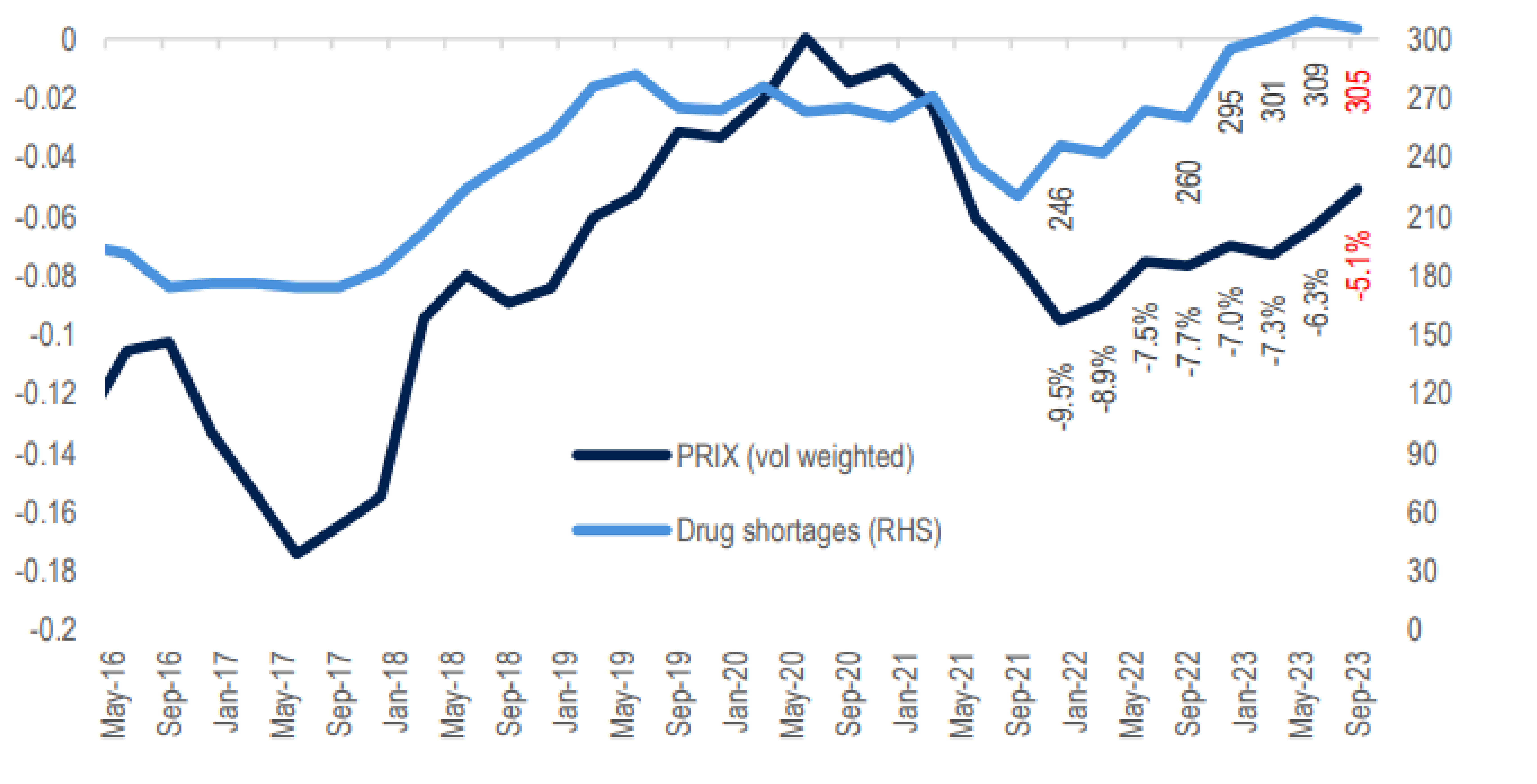
US Generics: Brink Of Change – Part II

DSP

In our Jan-Mar 2023 edition ((https://t.ly/lAa3K), we wrote about signs that generic drug business in the US might be becoming more profitable. Generics prices are not falling as much as they used to, and most companies are reporting better growth. Many stocks in the sector have done well recently, especially those that focus on the US market.

Investors are now debating how long this improvement will last. In the past, even Indian businesses of Pharma companies were valued at lower multiples because investors were worried about how the companies would use the cash from their Indian businesses to finance their US expansions. However, if US generic segment continues to improve, investors might be more confident on the overall sector.

US Generics Pricing Index (PRIX) & Drug Shortages (Source: Investec)



Source: Bloomberg, FDA, Investec Equities estimates

DSP

I did not come back to FDA to spend all my time on supply chain, but that's what's happened. And I feel like I know a lot about it, and I'm pretty fired up to do something about it. I don't think that's good for society. It's a national security risk.

We essentially have two drug industries in the US. There's the "innovator industry," where the prices are too high and then there's the generics industry, where a lot of the prices are too low. What I mean by that is that the price has been driven down below the cost of manufacturing and distributing the drug. And we have an industry which is continuing to leave the U.S. because it's not viable to run the business.

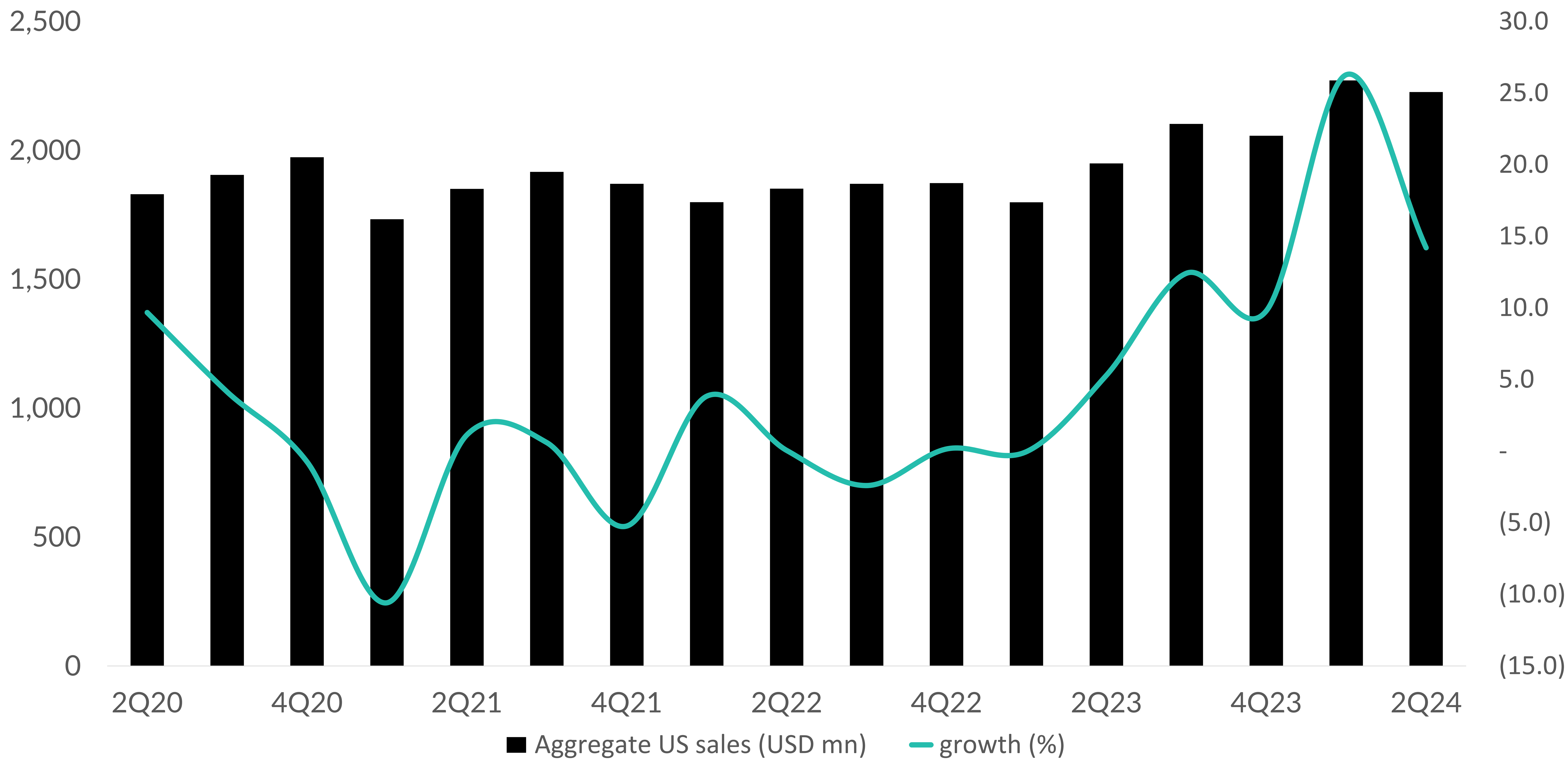
Robert Califf, Commissioner – US FDA (Aug-2023)

Source: https://www.fiercepharma.com/pharma/tale-two-industries-fdas-califf-rails-against-innovator-and-generic-drug-pricing

US Generics: Brink Of Change – Part II

DSP

Aggregate US Sales of 18 Representative Companies (Growth has been gradually recovering)



Source: DSP Report Card (1H FY24)

DSP

We've seen a level of stabilization (in price erosion) at that mid-single-digit level on our baseline products. So hopefully that continues.

LUPIN

I think the shortage situation until there are new capacities that come up will probably continue. I think there's a list that the FDA puts out quite routinely about shortages in the US. At least for those product families, we are not seeing price erosion. That's why there's a balance, because there's a fair number of products that are on the shortage list for various reasons that there is an equal counterbalance to lesser price erosion. So yes, I think from a US portfolio also there has been some amount of margin expansion.

Cipla

The price erosion always affects certain products that went into either a bid or RFP or competitive situation in that particular quarter, it's never broad. But, let's say, relatively to other years, this year its more moderate than we are used to in other years.

Dr.Reddy's

DSP

Price erosion has moderated and continues to be neutral (low single digit).

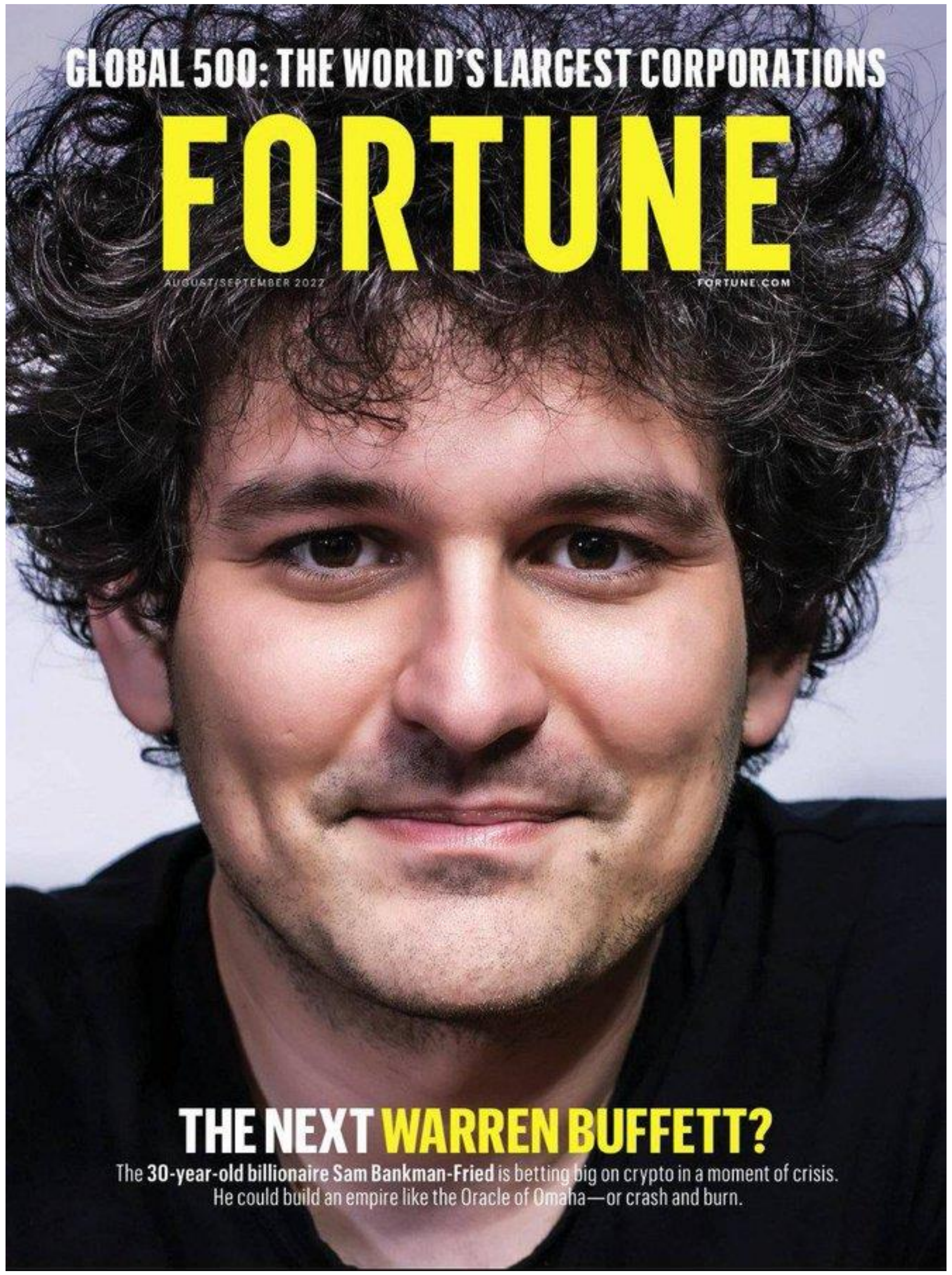
AUROBINDO

There's a point beyond which price erosion doesn't make sense, because I've seen that the buyers have had difficulties with supply in the last 6-9 months, based on going after the cheapest supplier. So, very often as a buyer you get tempted to go with a lower cost supplier and then you get your fingers burned. I think we are currently in that phase where people with a reliable supply are not being squeezed to the last cent on prices.

1QFY24

What happens is when all the companies say there is no price erosion, the customers come back and then start price erosion in the subsequent quarters. So I prefer not commenting upon price erosion, but I would say that generally the trends are pretty much what they were.

torrent PHARMA



Aug-2022

He has two parents that are compliance lawyers. If there is ever a place where I am not going to get in trouble – it's FTX.

Kevin O'Leary, Oct-2022

Businessman, Investor, Shark Tank Guest & a Paid Spokesperson for FTX

Source: https://www.youtube.com/watch?v=nQNRWY9jlnY

Go for it! Swap shares with Sam Bankman-Fried! Do whatever he wants to do! What could possibly go wrong?

Micheal Lewis

Author of Liar's Poker & The Big Short (After his first meeting with Sam. A friend had asked Michael to vet him.)

Source: Going Infinite By Michael Lewis

Samuel Benjamin Bankman-Fried – is the founder of FTX, a crypto currency exchange. He has been convicted of fraud and conspiracy. His sentencing is scheduled for Mar-2024 where the maximum term he faces is more than 100 years.

Disclaimer: