Twitter Thread by Intrinsic Compounding

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The Q4F22 Earnings season is almost here!

What are the Key things that you need to track in various businesses like Hospitals ■, Pharma■, Chemicals ■ and Music■ etc ■■■■

I will be analysing the companies and the expectations in two ways:-

1■What does the company do and the sales split?
2■What to expect from the results/Business direction?

1. Divis Labs:

Over the years Divis has proven its capabilities as an API player and has the highest Ebitda margins (44%) when compared to the other Pharma companies. 57% of the business in the last Quarter Q3FY22 was contributed by Synthesis and 43% by Generic API’s.

What to expect?

Molnupiravir has contributed to almost 21% of sales for Divis in FY22 (According to Kotak).
Investors will need to track the recovery in the Generic API division which has been soft for the last 3 quarters and growth in CDMO ex of Molnupiravir.

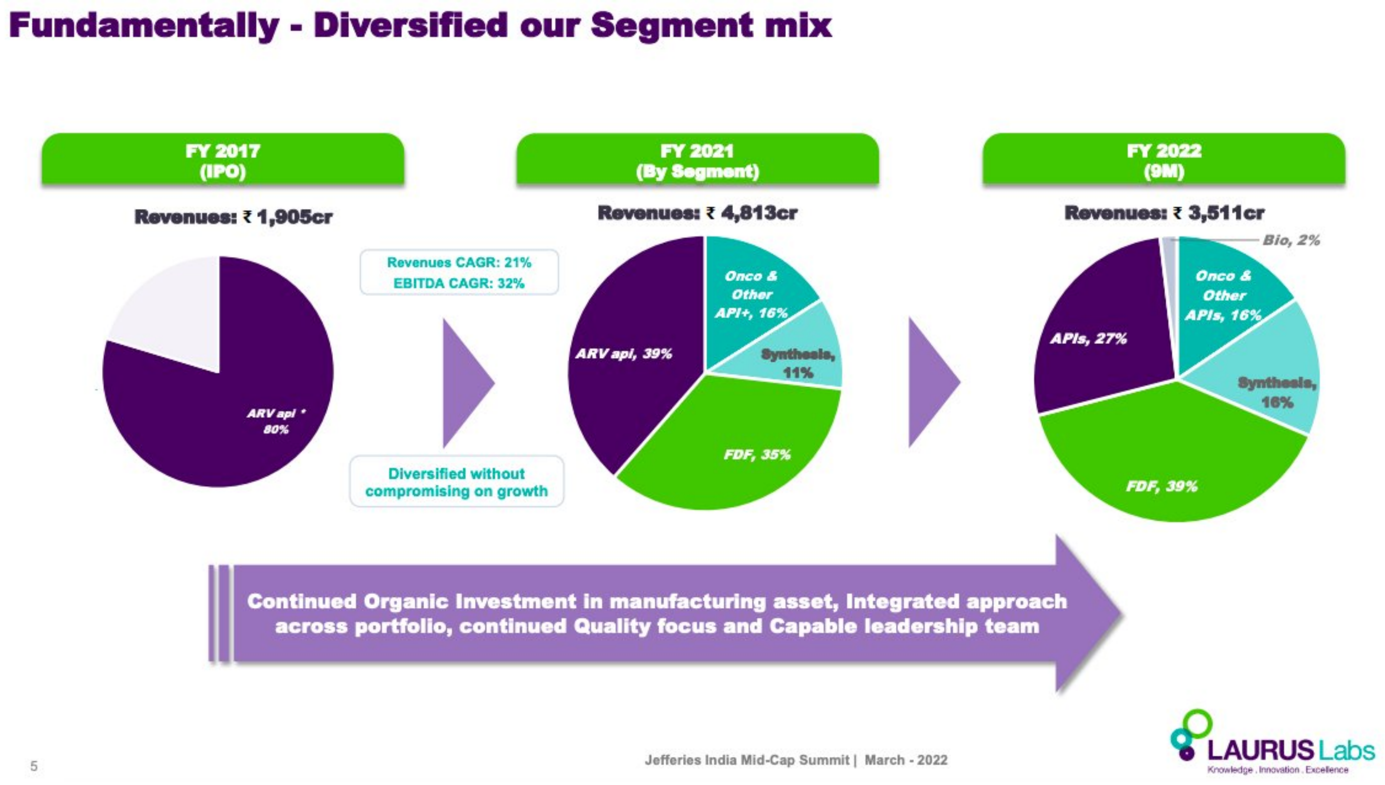
What to look for in Financials?

Key monitorable to track is by how much the topline grows or degrows QoQ. Given the base was high in last Quarter due to Molnupiravir Sales.

Topline sustaining above 2100 crores and margins above 41% will be good!

2. Laurus Labs

Laurus over the years from just being one trick Pony company (ARV Api's) has significantly expanded capacities and diversified into a full fledged Pharma company with a synthesis division, Api Division, Formulations Division and the upcoming Bio Division.

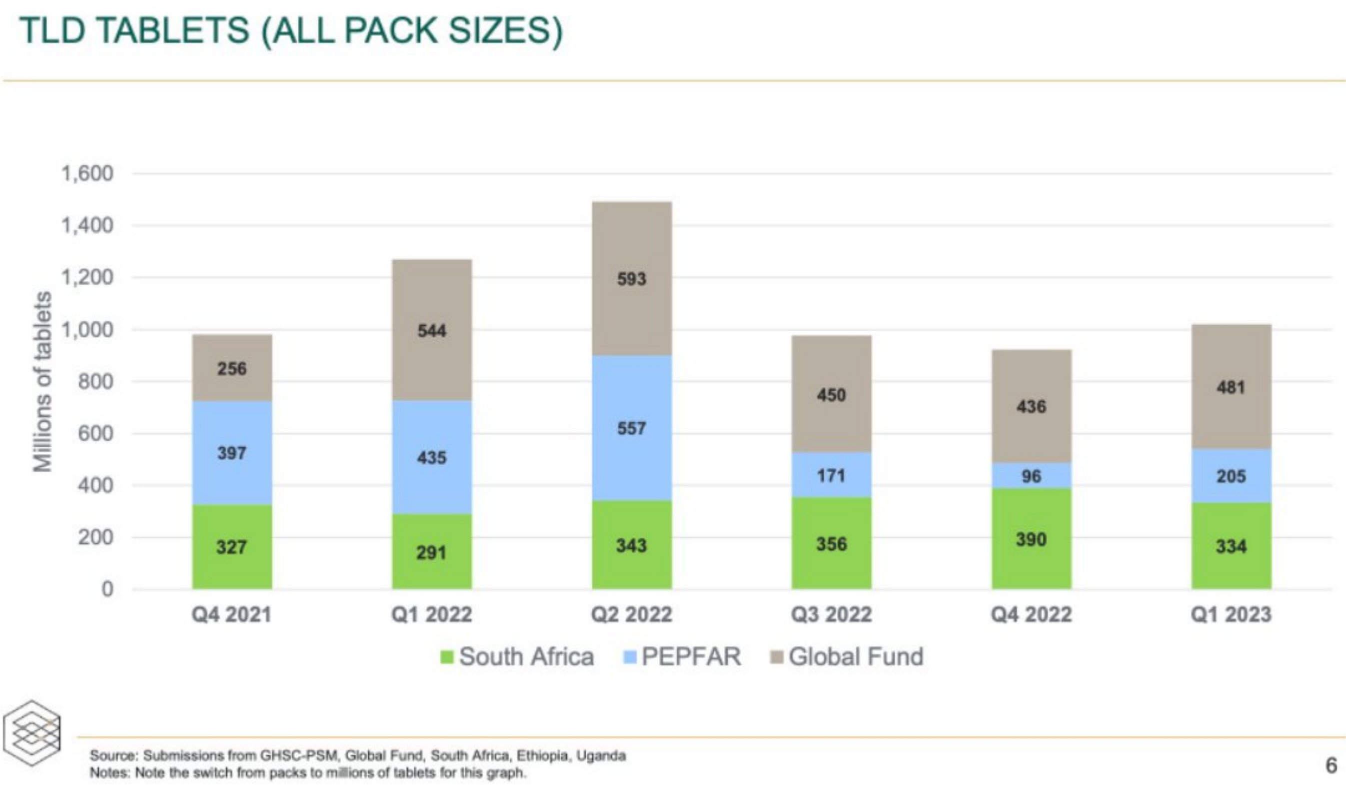


What to expect?

Over the last 3 Quarters in FY22 opposite of FY21 has happened. The company has degrown its topline QoQ. As there was stocking at customers' end and Global Funds have been diverted to fight Covid.

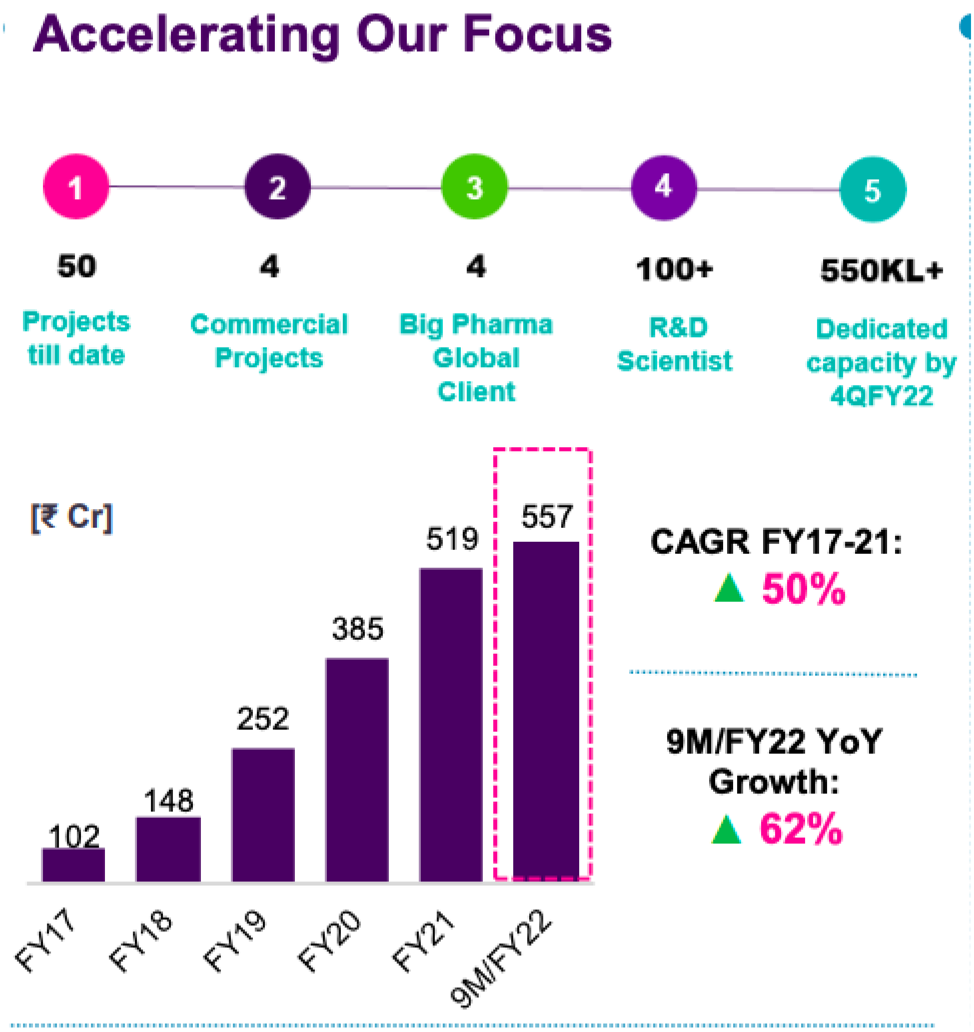
3 Things to track on the Business front:-

1■ Recovery in ARV Api Sales, Management expects recovery from this Quarter and the next Financial Year. This is how the TLD ordering cycle looks like:



2■ Growth Guidance in the Synthesis Division?

The Management has been guiding to take Synthesis Division to almost 25% of sales in FY25. In this result 2 things need to be tracked- In Every Q4 Laurus supplies commercial Quantities (in the past) and initiatives for scaling.



3■Capex going live for the formulations division and Timeline for other Capex's going live ■■

Expansion Type	Division	Location	Status & Capacity	Operational Timelines
Brownfield	Formulation	Vizag	Unit 2 - 4 billion units (New building)	Completion by Apr 22
Brownfield	Formulation	Vizag	Unit 2 - 1 billion units (De-bottlenecking)	Completed
Brownfield	API	Vizag	Unit 3, 4, and 6 (1,000KL)	Ongoing
Greenfield	API	Vizag	Unit 7, 8 Land acquired	FY24/25
Greenfield	Formulation	Hyderabad	Unit 9 Land acquired	Phase 1 – FY24
Brownfield	Custom Synthesis	Vizag	Unit 1 (LSPL)	Completed
Greenfield	Custom Synthesis	Vizag	Land acquired (Unit 2 & Unit 4 - LSPL)	FY24
Greenfield	Custom Synthesis	Vizag	Land acquired (Unit 3 LSPL)	FY24/25
Greenfield	R&D Center (Synthesis)	Hyderabad	Land acquired	FY23

6 Things to Track in Financials:-

1■Sales recovery in the ARV Division, which fell by 60% QoQ in the last quarter.

2■If there are negative surprises, then by how much the Ebitda Margins fall.

3■An investor must check the Gross Margins if product mix is improving.

4■Check the inventory as a % of Total Assets and the trend. Given there could be an inventory Build up if they expect business to normalise next year onwards.

5■Check CFO/PAT for the entire year.

6■Check the capex numbers from the cash flow from investing statement.

Hospitals: Narayana & Healthcare Global

About the sector:- Hospitals have been doing well and might continue doing well as the capex cycle is behind them. Given this is a shallow cyclical business, when capex intensity is low. Hospitals generally do well and report higher ROCE.

NH Narayana Health

Health for all. All for health.

Narayana and HCG:

1■ Recovery of international Patients: in the Pre Pandemic Era. International Patients used to contribute 10-12% of the revenues. This is a higher margin business, a key monitorable.

2■ Omicron Impact:- Hospitals were hit by Omicron in January, one needs to track if the patient footfalls have improved as compared to the previous quarter.

3■ In HCG's case, one needs to check which Hospitals have broken even and if Operating Margins are improving or not.

4■ Check the the net capex spends. As they have completely stopped capex for HCG.

5■ In Narayana's case, the management is supposed to give capex plans for 300-400 beds this Quarter, Carefully track this (mentioned in last quarter). Check how their capex in Cayman progressing.

6■ Topline might not be a challenge, but an investor must track the Ebitda Margins to check for improving utilisation of different hospitals.

Deepak Nitrite

The DNA of the company lies in being an import substitution player, that is how it was formed. The company took a leap of faith and spent 1300+ crores to set up a Phenol plant, that was quickly utilised and prove the execution capabilities of the company.

Things to Tracks:-

1■How the EBIT Margins move in the Fine and Speciality Division, given they have suffered in the past. Management maintains guidance for 27-32% EBIT margins, investors must track whether they can meet this or not.

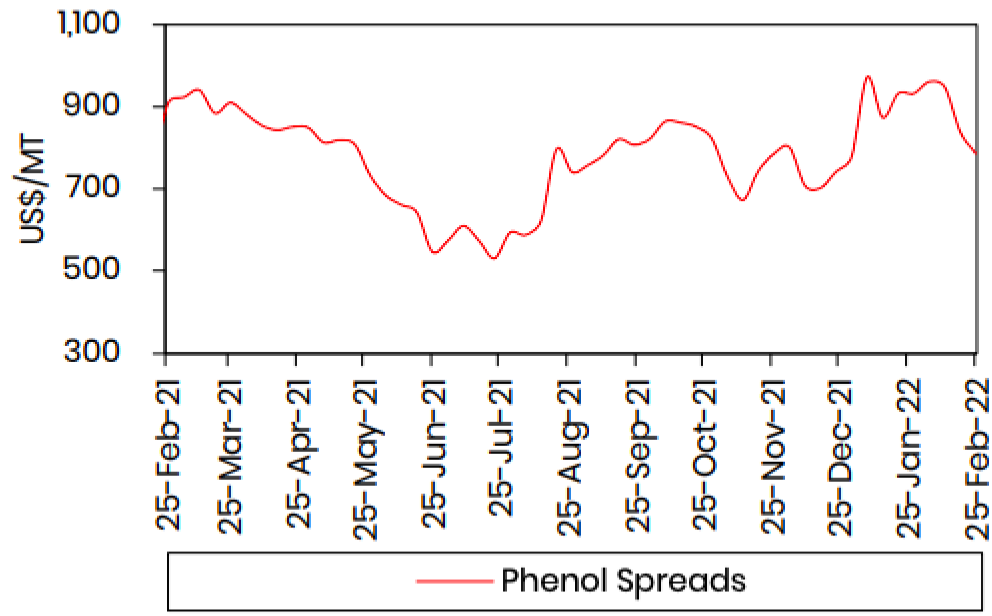
Consolidated Segmental Financials – EBIT & Margin

Particulars (Rs. crore)	Q3 FY22	Q3 FY21	Y-o-Y (%)	9M FY22	9M FY21	Y-o-Y (%)
EBIT						
Basic Intermediates	**68.74**	46.88	*46.6%*	**216.29**	124.16	*74.2%*
Fine & Speciality Chemicals	**53.23**	90.99	*-41.5%*	**180.74**	254.02	*-28.8%*
Performance Products	**47.01**	8.16	*476.1%*	**58.69**	19.58	*199.7%*
Phenolics	**183.61**	173.83	*5.6%*	**691.26**	365.79	*89.0%*
Other Unallocable	**20.46**	13.86	*47.6%*	**47.74**	51.77	*-7.8%*
Interest	**6.80**	15.70	*-56.7%*	**26.98**	60.00	*-55.0%*
Total	**325.33**	**290.30**	***12.1%***	**1072.26**	**651.78**	***64.5%***
EBIT %						
Basic Intermediates	**19.9%**	23.9%	*-4.0%*	**25.1%**	24.1%	*1.0%*
Fine & Speciality Chemicals	**25.8%**	43.1%	*-17.4%*	**29.6%**	45.3%	*-15.7%*
Performance Products	**27.7%**	9.0%	*18.6%*	**16.0%**	9.0%	*6.9%*
Phenolics	**17.8%**	23.3%	*-5.5%*	**21.8%**	22.5%	*-0.7%*
Other Unallocable	**NA**	NA	-	**NA**	NA	-

2■EBIT Margins in the Basic Intermediates division.

3■EBIT Margins in the Phenolics Division. Phenol prices have been volatile (rising again to close to highs seen in Q4FY21). Raw Material volatility in this division, given Coal Prices have been increasing.

Phenol spreads – One-year trend

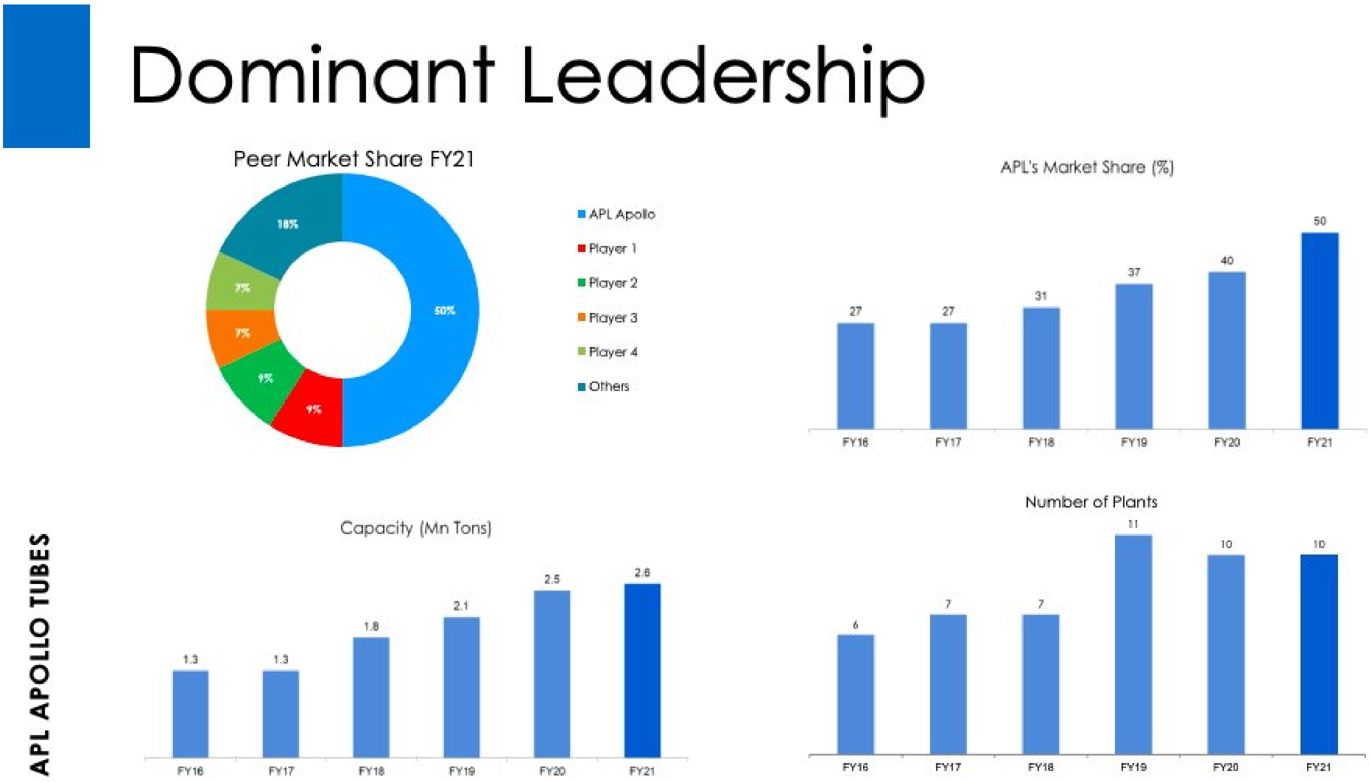


5■Capex Plans:- Credit Rating talks about 1450 crores of capex between 2022-2024. In Previous concalls, management has mentioned that capex plans might be even higher. Part of the capex is for downstream solvents in Phenolics and the other part is for capacities in DNL.

6■Finally, look at consolidated Margins given its a diversified and integrated chemical company. Also check the cash flow numbers and the inventory as a % of total assets.

Apl Apollo Steel Tubes:-

APL Apollo operates in the structural steel tube market. Over the years the company has grown its sales from 900 crores in 2011 to almost 11,300+ crores on a TTM Basis. They have 1100+ SKUs, and in 50%+ of their SKU's they don't compete with anyone.



Things to track:- ■■■■

1■ This quarter they have already declared their volumes- Volumes have grown QoQ from 402,729 Tonnes to 551,723 tonnes. These are the highest ever.

Product Category	Application	Sales Volume (Ton) Q4FY22	Q3FY22	Q4FY21	FY22	FY21
Apollo Structural	Heavy structures	40,129	35,143	38,091	120,633	95,371
	Light structures	59,895	47,250	58,478	198,478	212,811
	General structures	223,204	139,360	173,379	647,219	712,890
Apollo Z	Rust-proof structures	102,624	91,140	69,978	368,873	293,505
	Rust-proof sheet	34,905	19,043	10,200	104,961	23,044
Apollo Tricoat*	Home improvement	64,746	53,684	66,140	238,824	231,490
Apollo Galv	Agri/Industrial	25,840	17,109	19,082	75,595	71,242
Apollo Build/New Raipur	Coated products	380			380	
TOTAL		**551,723**	**402,729**	**435,348**	**1,754,963**	**1,640,353**

2■Second key thing to track here is the Ebitda Per tonne being reported by the company, Management has guided for this to remain between Rs 4500-5000. At Rs.5000 (given the HRC prices have been rising). The EBITDA will be at 270 crores+ vs 200 crores in the last quarter.

3■ Third key thing to track is the % of Value added products in the portfolio. Currently this mix has risen to 65% of the portfolio. This remains a key trackable.

De-commoditizing Product Portfolio

Value added products contributed 65% of total sales in 9MFY22 vs 42% in FY18

APL APOLLO TUBES

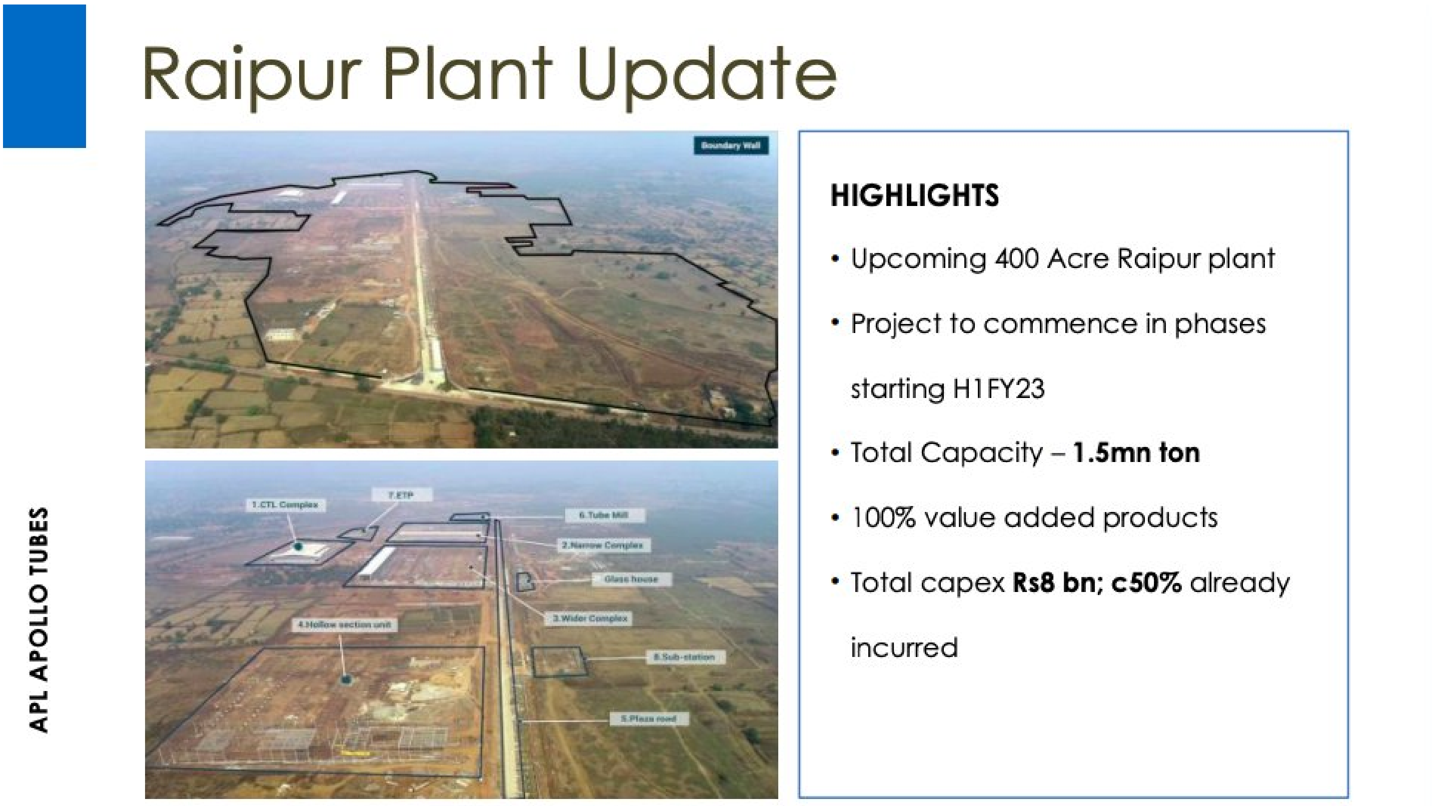
Product Category	Application	FY18 Sales Mix (%)	FY18 Volume (KTon)	FY18 EBITDA/Ton (Rs)	FY19 Sales Mix (%)	FY19 Volume (KTon)	FY19 EBITDA/Ton (Rs)	FY20 Sales Mix (%)	FY20 Volume (KTon)	FY20 EBITDA/Ton (Rs)	FY21 Sales Mix (%)	FY21 Volume (KTon)	FY21 EBITDA/Ton (Rs)	9MFY22 Sales Mix (%)	9MFY22 Volume (KTon)	9MFY22 EBITDA/Ton (Rs)	Annual Capacity (KTon)
Apollo Structural	Heavy Structure	5	52	3,707	6	80	3,775	6	101	4,000	6	95	4,721	7	81	7,217	200
	Light Structure	6	70	3,658	8	108	3,707	5	87	3,800	13	213	4,717	12	139	5,330	430
	General Structure	58	656	2,052	58	777	1,615	55	898	1,361	43	713	1,658	35	424	2,246	1,000
Apollo Z	Rust-proof Structure	21	241	5,691	21	279	5,568	20	333	5,021	18	294	6,728	22	266	8,246	450
	Rust-proof sheet	-	0	4,704	-	3	4,703	0	2	5,000	1	23	4,720	6	70	5,345	50
Apollo Tricoat	Home improvement	-	-	-	-	-	-	7	113	6,589	14	231	7,072	14	174	9,327	350
Apollo Galv	Agri/Industrial	10	111	4,880	7	92	4,362	6	99	3,952	4	71	6,040	4	50	6,552	120
Total		**100**	**1,130**	**3,283**	**100**	**1,339**	**2,933**	**100**	**1,633**	**2,923**	**100**	**1,640**	**4,138**	**100**	**1,203**	**5,644**	**2,600**

Standard products with EBITDA around Rs 2,000/ Ton

Value added products with EBITDA more than Rs 4,000/Ton

4■ Progress of the new capex upcoming at Raipur. Apl Apollo is putting up a 100% Value Added Capex at Raipur for 1.5 Million tonnes of capacity. The progress of this is crucial for investors to track. As some of the products here will have an

Ebitda per tonne of Rs 20,000+.



Mastek ■■-

One of the oldest IT companies, which is finally into a new Avatar post demerging its products business and focusing purely on the services part of the pie. Mastek has emerged as an important player when it comes to Public sector business in UK and Oracle (imple).

Things to track:-

1■Any new contract wins expected?
2■Any softness in UK Governments Digital spend.
3■Attrition rates
4■Margins sustaining at 20%+.
5■Will they be back to sequential growth from Q4 onwards?

6■Longer term:- Capabilities they are building apart from Oracle implementation.
7■Acquisitions being planned in the USA.

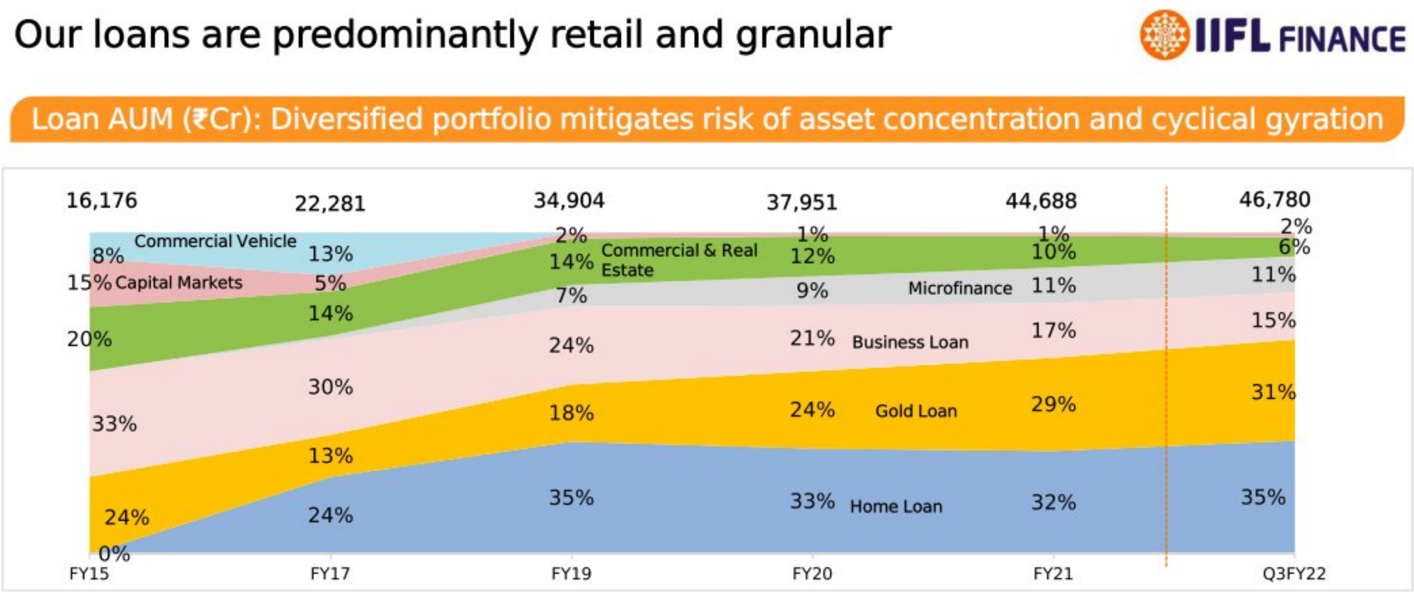
IIFL Finance:-

IIFL Finance is a multiliner NBFC with Multiple Business lines.

31% of Aum is in Gold Loans
35% of Aum is in Housing Loans
15% in Business Loans

11% in Microfinance

8% Construction and Real estate



Things to Track

1■ Yields in Gold Loans Aum as the competition in this segment has been increasing. Maintaining above 17.4% will be good.

2■AUM growth in the Housing Segment and the Average Ticket Size.

3■ Pick up in the Microfinance AUM growth given the removal of Yield caps

4■Trend of growth/degrowth in Construction and Real estate business.

5■Trend of Loan Losses and Provisions as a % of AUM. This used to be 1-1.5%, but post covid has increased to almost 3%. Normalisation is a key monitorable.

6■ Branch openings and AUM Growth along with incremental ROA and ROE numbers.

7■ The asset quality trends by checking the GNPAs and SMA Bucket trends in various loan classes.

8■ Finally, Another key monitorable will be is the cost of funds in the coming quarters, as they have been buying back Foreign bonds.

Radico Khaitan:-

Radico Khaitan has been one of the few Indian Companies in the Alcohol space which has built Domestic Brands like Magic Moments, Jaisalmer and 8pm etc. Along with this they have started the export of other brands like Rampur.

Things to Track:-

1■ One of the key changes in has been that they announced a Debt Funded capex of 750 crores for backwards integration.

2■ Due to governments ethanol blending programme. Co expects diversion of molasses and grain based ENA towards Ethanol.

Capex Plan

Both these projects are expected to be return accretive with average ROCE in the range of 20-23% and payback period of 3.5 - 4.0 years

Post this capex, the cumulative annual distillation capacity of the Company will be ~217 million liters

Production (KL per day)	Existing, Rampur (UP)	Dual Feed Conversion, Rampur (UP)	New Greenfield Distillery, Sitapur (UP)	Total
Molasses Plant #1	140			
Dual Feed Conversion (addition due to conversion)		+20		160
Molasses Plant #2	55			55
Grain	100		330	430
Total Production (KL per Day)	295	20	330	645
Total Production (mn liters per year)	101	7	109	217
Feedstock		Dual Feed – Molasses, Grain	Grain	
Estimated Capex (Rs. Cr) (incl. GST)		185	555	740
Long Term Borrowings (Rs. Cr)				370
Commercial Production		Q4 FY2023	Q1 FY2024	

Peak total debt to equity ratio is expected to be in the range of 0.30 – 0.40x and we expect to be debt free again by FY2025

3■ To secure its raw material supply+maintain high quality ENA for its Prestige and Above segment, Radico announced this capex.

4■ This seems to be a long term positive but short term pain type of move (I can be totally wrong, form your own views).

5■ Anti Thesis remains that other players like UNSP and Pernod Ricard don't see this as a risk and continue to outsource manufacturing of ENAm just focusing on Brand Building. Radico has similar margins vs UNSP due to partly being backward integrated at Rampur (lesser P&A mix).

6■ Other things to track:- P&A contribution, Raw Material volatility (Packaging) and increasing capacity for Rampur in FY23.

Navin Fluorine

Things to Track:-

1■ Gross Margins and Ebitda Margins. There were bunched up supplies of High Margin CRAMS Business in last Quarter, investors should track the growth in this business.

2■ Commercialization of 800 crore+ capex in coming Quarters. Timelines:- Q1FY23 for HPP, Debottlnecking of CRAMS in FY23, MPP plant in FY23 and Q4FY23 plant for Dedicated capacity.

3■ Look for addition to Employees, given they are doing a significant scale up.

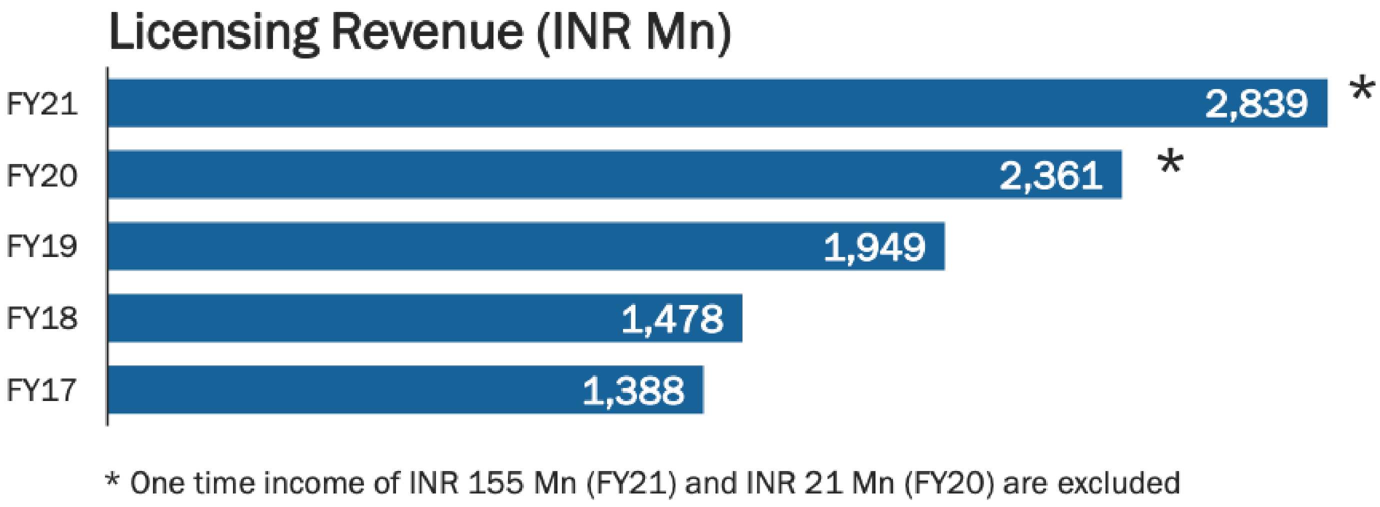
4■Any churn in Key Persons could be a negative at the time when co is expected to grow non linearly.

5■Look for further capex announcements and plans on the EV and Semiconductor R&D front.

Saregama: Things to Track

1■ OIBCID margins(Operating income before content charge, interest and depreciation), one of the key variables in Saregama's business.

2■ What are they doing with the QIP capital? Any plans for inorganic growth?



3■ Growth in Music Licensing and content spend going forward.

4■ If A&P spends revert in Caravan, then what will be the impact?

5■ If they can walk the talk or not:- Growth guidance given in the past.

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Hope to keep adding value :)

----The End-----