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Mega Thread: Jan-Jun 2021

26 Weeks, 26 Ideas, 26 Tweets

Days Gone 180. Efforts 360

CREDIT ACCESS GRAMEEN

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

CREDIT ACCESS GRAMEEN

WHAT WE LIKE

BIG INDUSTRY TAILWINDS

The MFI industry has grown 30% in FY20 and is widely expected to continue its momentum once COVID goes away. **Being the largest NBFC MFI currently in India with a market share of 13.3%, Credit Access Grameen is in one of the pole positions to benefit from the industry momentum.**

CLASSIC JLG (JOINT LENDING GROUP) MODEL

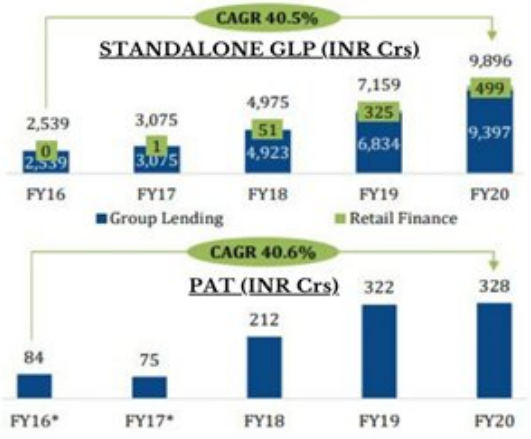
CAGL refined the JLG model with some tenets to enhance underwriting and risk management. **Some of the tenets are:**

1. **First loan for income generation activity only**
2. **Mandatory credit bureau checks for every loans**
3. **Compulsory home visits prior to acquiring a new customer**
4. **Disbursement predominantly to borrower's bank account**
5. **Loan utilization check post disbursement**

RURAL FOCUS

CAGL has made rural focus a big strategic priority. **Each branch has been planned to cover the maximum number of villages located within a radius up to 30 Kms from each branch office.** This has resulted in **rural penetration of 82%** for CAGL **~90% of employees are hired fresh from rural communities & ~50%-60% of employees are from families of active customers.** This helps CAGL maintain high employee retention rate & enhance its understanding of rural base especially at the local level. **We at Smart Sync feel that this rural focus can prove to be a decisive factor for CAGL as the MFI race intensifies.**

EXEMPLARY GROWTH MOMENTUM



WHAT WE DON'T LIKE

GEOGRAPHICAL CONCENTRATION RISK

Although CAGL is present in 14 states in India, the **top 3 states contribute to 80.6% of borrowers & 84.2% of GLP.** The breakup is:

1. Karnataka: **31.2%** of borrowers & **39.6%** of GLP.
2. Maharashtra: **22.5%** of borrowers & **24.8%** of GLP.
3. Tamil Nadu: **26.9%** of borrowers & **19.8%** of GLP.

This makes CAGL vulnerable to damage from any risks pertaining to these specific states like natural disasters, political disturbances, etc.

EXPOSURE TO AGRICULTURAL/GENERAL ECONOMIC SENTIMENT

Around 88% of loans by Credit Access Grameen are for Income Generation purpose. Most of these group loans are related to agri related purposes and thus **any adverse impact in the agricultural or general economic sentiment may prove detrimental for repayment of the company's loans.**

RISK FROM LACK OF DIVERSIFICATION (BOTH ASSET & LIABILITY SIDE)

Unlike most MFIs which convert into SFBs and expand their operational horizons to utilize its existing customer base for various cross sell opportunities, **Credit Access Grameen has chosen to remain focused on the Microfinance segment only with a very small presence in the retail finance sector till date.** Although this may help the company refine and enhance its MFI model due to its singular focus, **it also limits its operational capabilities and increases overall risk due to the high proportion of unsecured loans (Asset Side) and dependence on external funds through debt and QIPs to pursue growth (Liability Side).**

HIGH VALUATIONS

Credit Access Grameen has seen high valuations for a long time as compared to the rest of the industry and **it is still valued at 45 times PE and 4.4 times Price to Book. This high valuation reduces the margin for safety considerably.**

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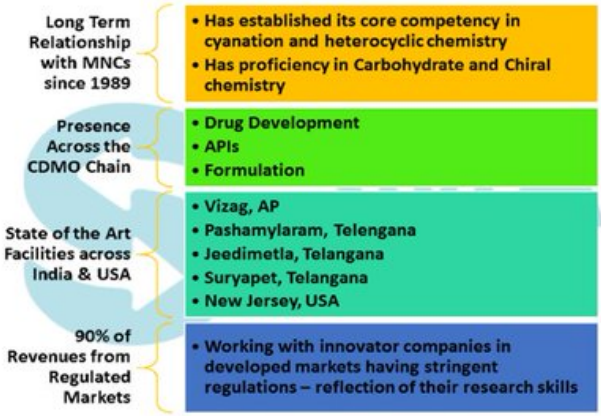
SUVEN PHARMA

WHAT WE LIKE

EXPERIENCED MANAGEMENT

Mr. Venkateshwarlu Jasti (CMD) holds a dual postgraduate degree in pharmacy and specialized in industrial pharmacy. **He has an experience of over 3 decades in contract research industry that helped Suven to associate with 70 global companies.**

KEY GROWTH DRIVERS



VALUE UNLOCKING FROM THE DEMERGER & STRONG FINANCIALS TO ABSORB CAPEX

Suven Pharma was demerged from parent Suven Life Sciences and **this is expected to help unlock shareholder value** & allow for focused operating strategies for the different operating segments. **This action should bring out focused growth, operational efficiencies, business synergies and increased operational and customer focus.**

CDMO business has favorable economics thereby ROE (FY20) is @ >40%. In-principal approval of INR 600 crores of CAPEX over a period of 24-36 months. Going forward, the strategy is to evenly balanced between the three verticals – CDMO-Pharma, CDMO Non-Pharma & formulations – **making Suven a full-fledged pharma solutions provider and also launch niche ANDAs that are not competing with any of its existing customers.**

ACQUIRING STAKE IN RISING PHARMA

Suven invested **$35 million in Rising Pharma Holdings for a 25% stake.** This investment led to **unrealized share of profit of INR 48.21 Cr** in FY20.

- Aceto valued Rising at $450 Mn in 2016
- Suven invested at $140 Mn valuation in 2019

It can leverage Rising's extensive product portfolio and **vertically integrating with Suven's world class API and finished dose manufacturing capabilities.**

WHAT WE DON'T LIKE

WORKING CAPITAL INTENSIVE OPERATION

While margins & ROE are very attractive for Suven, working capital is very stretched. **Cash conversion cycle for Suven is around 265 days. Other competitors in the same space have cash conversion cycle between 150-250 days. Only exception being Syngene, of less than 50 days.**

CUSTOMER CONCENTRATION RISKS

Top 10 customers contribute to substantial share of revenues exposing the company to customer concentration risk. **However, we at SSS, believe that all CDMOs initially have that risk and the concentration should go down during the lifecycle of a CDMO by adding differentiated projects and new customers.**

LUMPINESS OF REVENUES IN CRAMS

- Very **high margin but lumpy** business.
- Customer in the first batch takes a small sample and then **repeat order takes time (up to 12-18 months) only if the quality is approved.**
- Capex heavy at first but high ROE later
- Company has 4 molecules for which intermediates are being supplied
- **1 molecule related to oncology is in Phase 3**
- Mainly blockbuster drugs, where **the cost of the API is 1-2% of the total.**
- Suven is trying to become a complete solution provider in this space.

REGULATORY RISKS

In the recent times, we do not get to hear about any major USFDA observations for any Indian Pharma companies. **However, that does not mean that the risk is no longer here.** While Suven appears to be a very compliant organization from regulation point of view, **regulation risk (read USFDA) is certainly there.**

LONG GESTATION & UNPREDICTABILITY OF PRODUCTS

Drug discovery in general has a high level of unpredictability and long gestation in-built in its business. Post the onset of COVID-19, pharma sector is attracting the investors' attention. **Hence current valuation (north of 35 times earnings) may not compensate for the various risks discussed above.**

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

NIPPON LIFE INDIA ASSET MANAGEMENT

WHAT WE LIKE

TAILWINDS FOR THE AMC INDUSTRY

- In FY13, MF AUM stood at 10% of Bank Deposits. In Dec, 2019 it has inched up to 20%. In the same period MF AUM CAGR is 22% wrt Bank Deposit CAGR of 11%.
- **India's equity-oriented AUM as a % of Market Cap is 6.4% as against the global average of 36.3%.**
- **India's AUM as a % of GDP is 13.5% as against a global average of 55.1%.**



PROMOTER PEDIGREE

Nippon India Life AM is promoted by Nippon Life Insurance Company, Japan's biggest private insurance house with assets of over $700 billion as of March 31, 2019. **NAM's offshore and AIF businesses have good potential for growth by leveraging the global network of Nippon Life.** This is evident from the fact that NAM has already **formed strategic partnerships & distribution tie-ups in most of EU, South America, Australia, Singapore, South Korea and Japan** to name a few.

BIG POTENTIAL FROM B30 REGIONS IN INDIA

Beyond Top 30 Cities (B30 regions) are seen as **the next frontier for the AMC industry** with every player looking to capture this under-penetrated market. NAM is among the leading players in these geographies due to its long presence in the industry and **its robust distribution network of >77,400 distributors. NAM also boasts of 54% of distributed assets coming from IFAs (Independent Financial Advisors), which affords a big opportunity for market capture as majority of investing activity in these places are driven by IFAs.**

MARKET LEADERSHIP IN ETF SPACE

ETFs have been rising fast globally as overall investing focus is shifting from active to passive funds. As retail participation and pension investing are rising, so is the demand for exchange traded funds with smaller TERs and greater simplicity as compared to actively managed funds. **This represents a big opportunity for NAM which is the market leader in ETFs in India today with 70% market share in ETF volumes & 33% market share of ETF folios.**

WHAT WE DON'T LIKE

MACROECONOMIC WORRIES

The Global & Indian Economy have been severely affected by Coronavirus. Initially these worries were heightened due to events like the uncertain US elections, stalling Brexit deal, etc. There is still much uncertainty ahead about the evolving situation of COVID-19 & how everyone will recover from the economic pitfall of 2020.
AMC business is a proxy for the economy, so when the economy faces difficulties, AMC business would naturally suffer too in the same period.

REDEMPTION WORRIES IN CASE OF BIG STOCK MARKET FALLS

History reveals that when the stock market tanks, retail investors panic and sell off their equity and MF investments. **However, we at Smart Sync, believe that due to increasing awareness of the advantage of long term investing in equity asset class, and the prevalence of SIPs as an investing mechanism, the chances of such mass redemption are much lower now.**

COMPETITION FROM NEW TECH ENABLED PLAYERS

The financial services industry is seeing disruptions from tech enabled players in all of its sub spaces like insurance, lending, broking, etc. Zerodha started just 10 years ago as a tech oriented discount broker and has now overtaken established industry players like ICICI Direct & HDFC Securities to become the No 1 in the industry.
A similar story playing out in the AMC industry where a tech enabled entrant may come come to threaten established players like NAM-India is highly possible.

REPUTATION OVERHANG FROM RELIANCE CAPITAL

NAM was previously known as Reliance Nippon Life Asset Management Limited or RNAM & was previously promoted by Reliance Capital & Nippon Life having only a 26% stake. **RNAM was historically one of the leading MF houses in India but it was steadily losing market share in the last 4-5 years. This fall in stature coincided with the issues regarding parent Reliance Capital & the Anil Ambani Group and their severe debt woes.** All of this culminated in Reliance Capital selling off its entire stake to Nippon Life in 2019 & rebranding of RNAM into NAM-India. **Although NAM is steadily recovering its lost market share, the bad rep from RNAM days is still fresh in most investor's minds.**

SMART SYNC SERVICES

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BY SMART SYNC INVESTMENT ADVISORY SERVICES

HEIDELBERG CEMENT INDIA LTD

WHAT WE LIKE

STRONG SUPPORT FROM PARENT COMPANY

HCIL has a very strong linkage with its parent company Heidelberg Cement AG (HCAG). HCAG raises funds in its books and extends them to overseas subsidiaries, **resulting in centralized treasury operations for a maximum portion of debt. HCAG also gives technological insight to HCIL which helps it in its business tremendously.**

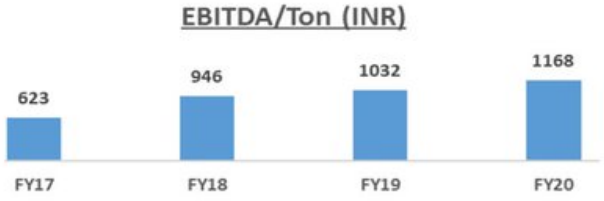
INCREASED EFFICIENCY FROM AUTOMATION & DIGITIZATION

Automation and Digitization has **enhanced the efficiency and reliability of HCIL's plant and machinery** and at the same time **ensures quality and consistency of the product.** This also **enhances the safety of the plants and minimizes accidental injuries** which are prevalent in heavy industries at the plant level. **Digitization also enhances supply chain & inventory management as well as dealer channel management for procurement & sales.**

INCREASING EFFICIENCY, EBITDA/TON & CAPACITY UTILIZATION

HCIL has seen **good rise in efficiency** in the **last 3 years** with **profit CAGR @ 52% & ROE @ 19%** despite sales CAGR being @ only 9%.

EBITDA/ton is the best metric to evaluate performance of a cement company. It has risen to Rs **1137/ton** in Q2FY21. **Capacity utilization has also been high for HCIL at >77% since March 2016.** HCIL has been improving this metrics continuously.



INDUSTRY TAILWINDS

Under the Pradhan Mantri Awas Yojna Scheme, around 20 million urban homes are expected to be made by March 2022. There is also an increased push for public infra undertaking including INR 102 trillion of National Infrastructure pipeline, 12 lots of highway bundles, & 100 more airports along with Smart cities proposed in FY21 Union budget. **We at Smart Sync believe that this represents a big opportunity for the construction space and correspondingly the cement sector in India.**

WHAT WE DON'T LIKE

VULNERABLE TO ECONOMIC SLOWDOWN

Cement is a good proxy to economy growth. During economic slowdowns, **the investment in high gestation infrastructure projects tend to go down.** Currently the govt is showing its intent to invest in big infra projects. **However, if the pre-covid slowdown comes back, then demand for cement can remain sluggish for extended period.**

FUEL SUPPLY RISK

Cement manufacturing is an energy intensive process. Non-availability or a sharp increase in fuel prices may affect margins.

Power & fuel costs generally **forms more than 20% of total cost** for the cement manufacturers. Hence, a sharp increase in fuel prices can put a lot of strain on the financials. Although **HCIL is only dependent on grid power for 60% of its needs,** it is still a big factor on costs for the company.

LOGISTICS & FREIGHT RISK

Cement is a low-value high-volume commodity and logistics becomes a significant component of the total cost. Rail and truck availability or increase in fuel costs could swing the margins significantly. This was evident post the pandemic when the unavailability of enough drivers & trucks were the major reason behind low sales for HCIL.

HCIL is also looking to focus on increasing sales in the markets at shorter lead distances to contain logistic costs.

KEY RAW MATERIAL SUPPLY RISK

Availability of key raw materials like Fly Ash continues to pose challenge due to frequent shut down of power plants etc. HCIL conveys that it has made all efforts to secure enough quantities from various sources thus ensuring uninterrupted operations. **However, this doesn't mean that the RM risk is completely mitigated.**

HIGH COMPETITION & LIMITED PRICING POWER

Cement industry in India is highly competitive. Moreover, in this industry are large scale players with huge capital invested in setting up the production units. **This makes it difficult for the smaller companies to step up their game.** Also the commodity nature of the product provides limited pricing power. **Although HCIL's brand image helps it price its products above average industry prices, the overall pricing power is still limited.**

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

ITC LIMITED

WHAT WE LIKE

LONG HISTORY & DIVERSIFIED BUSINESS PORTFOLIO

ITC, established in 1910, is now a **110 year old strong organization**. Started as only a tobacco player, it has now **diversified into FMCG, paper and paperboards, agri-business and hotels.** Cigarette continues to contribute around **42% of the turnover (H1FY21) but its share of the total revenue is on a declining trend for several years now.**

RAMP-UP OF FMCG BUSINESS

ITC has had an annual consumer spends of over Rs 19700 Cr in FY20. Segment revenue has jumped **over 4 times in the last 11 yrs from around 3000 Cr in FY09 to Rs 12844 Cr in FY20.** FMCG now contributes more than 25% of the total revenue. Despite the disruptions from COVID-19, ITC has able to bounce back very strongly especially in the Foods & Hygiene business with **over 70 new products in FMCG segment in H1FY21.**

BRAND LEADERSHIP & BUILDING CAPABILITIES

ITC is **renowned for its brand building capabilities** with **over 25 recognizable brands.** It is also the

- **No 1 in legal cigarette industry**
- **No 1 in Paperboards**
- **No 2 in Hotels**
- **No 3 FMCG player with various market leading brands like:**

Aashirvaad is **No. 1** in Branded atta

Sunfeast is **No. 1** in the Cream Biscuits segment

Classmate is **No. 1** in Notebooks

Bingo! is **No. 1** in Bridges segment of Snack Foods (No.2 overall in Snacks & Potato Chips)

Engage is **No. 2** in Deodorants (No. 1 in women's segment)

YiPPee! is **No. 2** in Noodles

Mangaldeep is **No. 2** in Agarbattis (No. 1 in Dhoop segment)

RISE OF THE PAPERBOARD & AGRIBUSINESS

Due to COVID-19. ITC has seen **renewed demand for the Paperboard business** (from the need for better packaging for all kinds of goods from food to pharma) & **the Agribusiness** segment which has seen very robust demand rise due to strong agricultural sector performance & robust FMCG demand during the pandemic. **The rise of both these sectors bodes well for the upstream FMCG business for ITC.**

WHAT WE DON'T LIKE

RISK FOR CIGARETTE INDUSTRY FROM GOVT POLICIES

A punitive and discriminatory taxation and regulatory regime continue to pose significant threat to the legal cigarette industry in India. **The tax incidence on cigarettes has trebled between 2011-12 and 2018-19.** ITC, though, has managed to pass on all this hike to customers. **However, We at Smart Sync believe that this outstanding risk remains ever-present since cigarettes are among the first products to see punitive rise in taxation.**

DECLINE OF THE HOTELS BUSINESS

The travel industry has been the worst hit sector from COVID-19. Correspondingly, the Hotels business has been loss making for ITC since the start of the pandemic. Although the company has good brand presence in the industry, **it has to continually keep investing and maintaining its properties to maintain the brand image.** Since the take-up for travel has been slow, **it is expected to take a long time for this business to come around and start recouping the investments made in the business especially considering the big capex already done in this segment.**

FMCG MARGINS KEEPING OVERALL COMPANY MARGINS LOW

ITC's FMCG businesses are currently at different stages of their life cycles. As such, **the revenue dimensions, cost structures and profitability profiles of each of these businesses are distinct from the other.** For example, **EBIT margin** is in the range of **7-10% for the Staples business** (first full year of launch: 2002/03) while the same is in the range of **4-6% for the Snack Foods business** (first full year of launch: 2007/08) **representing upfront investments towards category development and brand building.**

SHRINKING MARKET SIZE & HIGH COMPETITION IN CIGARETTE INDUSTRY

Due to the high taxation in legal cigarettes, **illegal cigarettes have been rising in volumes in recent years. This shrinks the overall market size for legal cigarette makers and is especially damaging for market leader ITC.**

ITC is also facing **stiff competition in the cigarette space from other players like VST & Godfrey Phillips (who has seen good growth in recent years from its rising sales of Marlboro brand).**

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

KNR CONSTRUCTIONS

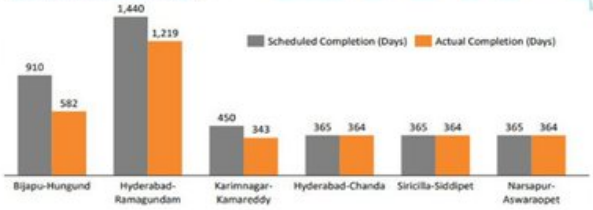
WHAT WE LIKE

STRONG MARKET POSITION & PROJECT PORTFOLIO

Established in 1995, KNR has evolved into a multi-domain infrastructure project development company. **It is among the industry leaders in providing EPC as well as BOT solutions** across several fast-growing segments with **a main forte in roads, highways, flyovers and bridges**. It is also diversifying into **high margin irrigation projects segment with Rs 3861 Cr of orders till date.**

TRACK RECORD OF COMPLETING PROJECTS BEFORE SCHEDULE

KNR has a great record of completing its projects before or on time. **We at Smart Sync feel that this a differentiating factor that makes KNR stand out from the industry.**



STRONG ORDER BOOK & BALANCE SHEET

KNR has has a total **order book of Rs 8555 Cr as of Sep '20 and it is planning to add an extra Rs 2000-2500 Cr by March '21.** Currently, road projects account for **55%** of total order book, while irrigation segment forms **45%. The company has already sold KNR Walayar Tollways BOT toll asset in a SPA to Cube Highways.** These funds are expected to be used to reduce debt, improve Balance Sheet strength & fund additional capex for future projects.

INDUSTRY TAILWINDS

The infra sector is expected to be one of the primary tools for the Govt to revive India's economy and thus a lot of opportunity is expected to arise for the industry. **NHAI has also announced that it will be awarding contracts of Rs 2 Lac Cr in H2 to reach its FY21 target of 4500 km. This should be very beneficial for a seasoned highway player like KNR.**

OUTSTANDING NUMBERS FOR A CONSTRUCTION COMPANY

In the last 5 years, Sales CAGR: **22%,**
Profit CAGR: **31%,** Avg ROE: **19%**
Cash Generation from operations have been steady in the last 5 years to above Rs 200 Cr with a steady increase in operating margins as well.

WHAT WE DON'T LIKE

DEPENDENCY ON GOVT FOR ORDERS & RECEIPT OF PAYMENTS

Even though KNR has been excellent in managing its working capital efficiently, **it remains dependent on government** for growth and sustenance. **If government does any delay in awarding new projects or in payment of company's dues, it can have a big impact on the performance of the company.** This has already happened during COVID-19 when payments from Telangana govt got delayed.

HIGHLY COMPETITIVE INDUSTRY

Construction industry is very competitive. **It attracts not only domestic but also foreign players.** History of the sector shows that from time to time **it is prone to aggressive bidding, resulting in price cut and lower operating margins for the whole industry.** To consistently make better margins in such a highly competitive industry is a challenge.

CONSTRUCTION RISKS

Infra projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. **This could lead to cost-time overruns, thereby impacting profitability.**

RAW MATERIAL PRICE RISKS

Increase in cost of raw material, particularly steel or cement, or their unavailability over the tenor of the contract can impact schedules and profit margins.

REGULATORY RISKS

The complex nature of infra projects means that the company has to interface with various regulatory authorities throughout the project life cycle, making it especially vulnerable to regulatory action. These requirements are complex and subject to frequent changes. Failure to comply with these requirements may result in significant liabilities for the company.

SMART SYNC SERVICES

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

MAYUR UNIQUOTERS

WHAT WE LIKE

FANATIC PROMOTER WITH UNWAVERING FOCUS ON PRODUCT QUALITY

Mr. Suresh Poddar, Chairman & MD is widely recognized for his visionary contributions to spearhead Synthetic/Artificial Leather Industry. **We at Smart Sync believe** that his continuous efforts on R&D & superior quality products are the primary reason for Mayur standing out from the rest of the industry. **The company today is one of the largest manufacturers of artificial leather in the world with approx. 37 million meters (mm) annual capacity.**

FORAY INTO PU & THE IMPORT SUBSTITUTION OPPORTUNITY

Domestic PU leather market is almost entirely **(95%) import dependent** due to lack of technical knowhow and high investment requirement. **Mayur has a big edge here being the only domestic PU maker. This edge has become more prominent with the Govt of India imposing an anti-dumping duty of 10% on imported PU.** Mayur already has 1 PU line in production which is expected to **generate annual revenues of Rs 125 Cr.** It has plans to add up to 5 lines in next 5 years.

RISE OF AUTO SEGMENT

Mayur's efforts in pitching to auto majors has borner fruit and **it has won many domestic and international orders including from Mercedes Benz, BMW and Volkswagen.** It is currently pitching to Ford & Chrysler and **is one of the only 2 PU makers for Auto in the world which affords it a significant advantage when pitching to auto majors.**

DELIVERING HIGH MARGINS DESPITE TOUGH INDUSTRY CONDITIONS

Continuous focus of the management on in-house product development / innovation, adequate backward integration and high margin products (both in domestic and export markets) have borne fruit for the company. **This is despite tough industry conditions in its 2 biggest segments informal footwear and auto segment in recent years. Operating margin has always remained north of 20% in the last 8 years despite the commodity nature of the end product.**

WHAT WE DON'T LIKE

RAW MATERIALS PRICING RISK

Almost 80% of company's raw materials are derivatives of crude oil. Thus any adverse fluctuation in Crude Oil prices is going to have an adverse fluctuation on company's financials. However, the company tries to enter into medium term contract with suppliers to partially hedge this risk.

LOSS IN MARKET SHARE IN DOMESTIC FOOTWEAR & AUTO MARKET

The company had **lost its domestic automotive market share in recent years** mainly due to the management's commitment to not compromise on quality and price of product. **This loss is offset by the company gaining international orders and domestic orders from new auto entrants like KIA and MG which it bagged precisely due to its commitment to quality.**

A similar situation has occurred in the footwear where **orders from customers in the unorganized sector have declined** due to Mayur refusing to compromise on quality and price of its products.

POOR PERFORMANCE IN LAST 3 YEARS

While the company is making good long term bets by focusing on margins and high-value products and enhancing its R&D and technical capabilities, **it has continuously faced tough times with the slowdown of auto sector in FY19 & FY20 and the ongoing pandemic. In the last 3 years, Sales and Profits have grown at a CAGR of only 3% and 0% respectively.** FY21 is also expected to be slow due to the lockdown in Q1.

FOREX RISK

In FY20, **more than half of raw materials of the company were imported from overseas. This makes it vulnerable to large fluctuation in forex market.** However, this risk is partially mitigated through a natural hedge from export of its goods.

AGEING PROMOTER: SUCCESSION RISK

While Mr. Poddar has demonstrated very good record for the company, **he is already 73 years old.** And he appears to be a hands-on entrepreneur. He looks after overall operations of the company including production, marketing & strategy. **How long can this last and what comes next after this is still uncertain. If the company does not prepare a good succession plan, it is going to be difficult to realise Mayur's ambitions in the future.**

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

BAJAJ AUTO

WHAT WE LIKE

ENDURING BRAND CREATION & MAKING STRATEGIC PIVOTS

1970s & 1980s: **'Humara Bajaj'**, the aspirational scooter brand for the mass commuters of India.

2001: Launching the iconic brand **"Pulsar"** & going from a scooter to a motorcycle company.

2020: Setting sights abroad. **>50% of revenues are derived from exports.** Products are sold to **79 countries** around the world. Positioning Bajaj brand as **"The World's Favourite Indian". Market position of #1 or #2 in >25 countries.**

RESURGENCE OF PULSAR BRAND

Although the brand has been here for more than 15 years, Bajaj Auto has been able to keep it fresh and relevant **by expanding into the 125cc segment.** The Pulsar sold over **4,20,000 units in Q3FY21** which was its **highest volumes sold in a quarter. Pulsar 125 was instrumental in this resurgence with the model capturing a market share of 22.8% despite being launched almost a year ago.**

SUCCESS WITH KTM & GOOD RESPONSE TO 250CC+ BRANDS

India is now the largest market for KTM (partly owned by Bajaj Auto). Bajaj Auto is also seeing good response to its other brands in the **250cc+ segment like Dominar, Husqvarna, Duke 250.** It will start selling Triumph brand in India soon and **has already signed an MoU with Govt of Maharashtra to set up a plant for Rs 650 Cr which will be making high-end motorcycles.**



STRONG FINANCIALS

- Best operating margin in industry **(17% YTM)**
- Debt free Balance Sheet
- Surplus Cash of **Rs 16240 Cr** as on 31st Dec '20.
- Free Cash Flow positive for several years
- 5 year average ROE above **24%**
- **Record export volumes since 2 quarters.**

WHAT WE DON'T LIKE

DOMESTIC 3 WHEELER MARKET SLOWDOWN

Domestic 3 wheeler market in India has been on a prolonged slowdown since 2019. **This decline was further pushed down by the COVID-19 pandemic which shut down all forms of public transportation especially short transit segment which was where the majority of 3 wheelers were deployed in India.** Although exports have mitigated the fall in domestic market to some extent, **the segment still declined 36% YoY in Q3FY21 where domestic segment had fallen 65% YoY in contrast to domestic 2 wheelers which rose 8% YoY in the same period.** Recovery for this segment is expected to be slow and likely to start from FY22 onwards.

UNCERTAINTY ON MEIS

Bajaj Auto is major exporter from India and was a major recipient of export incentives from the MEIS scheme. But currently due to the overhaul of the MEIS scheme by the govt of India, **all export incentives have been temporarily put on hold. This has forced Bajaj Auto to institute price rises to cope with the lack of the incentives which can hurt demand in the short term for the comapny.**

THREAT OF DISRUPTION FROM ELECTRIC VEHICLES

Electric Vehicles (2W&3W) in India has not yet picked up meaningful volumes. However, there many VC-funded startups making good in-roads in this field. **With the breakthrough of newer technology, these nimble start-ups have the potential to disrupt the industry meaningfully.**

Bajaj Auto has forayed into this space with the re-launch of their erstwhile famous brand **Chetak in an all electric avatar.** However, it is too early to say, how far they can go on this.

DELAY IN CHETAK

Bajaj Auto has not been able to deliver on its promise on launching all electric Chetak due to the industry slowdown during COVID-19. The management has stated in the latest investor conference call that **it has stopped bookings as there are still a lot of vulnerabilities in the sourcing of RM from Wuhan and shortage in semiconductors worldwide along with the lack of charging infra in India.**

We at Smart Sync believe that this announcement has dampened most of hype from the comeback of the Chetak brand and that the new model launch will take a lot longer than anticipated.

5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

SYNGENE INTERNATIONAL

WHAT WE LIKE

TAILWINDS FOR CDMO/CRAMS & WIDE INDUSTRY PRESENCE OF SYNGENE

CDMO/CRAMS industry has seen a big rise in India due to falling returns on R&D in the West and due to high skilled talent available here at low cost. **Syngene** is one of the leaders in the CDMO/CRAMS space with **4,200+ scientists working for 360+ clients** including GSK, Sanofi, J&J, AMGEN, Merck, Bristol Myers Squibb, Bayer, Unilever, etc. **It also has 8 collaborations with the top 10 pharma giants in the world.**

COLLABORATION MODEL CHOICES

- **Dedicated R&D Labs:** Long-term (5-7 years) contractual commitment
- **Full-Time Equivalent (FTE):** ~3-year contract term
- **Fee For Services (FFS):** Clearly defined project, limited in scope and deliverables
- **Risk-Reward:** Based on clearly defined, pre-agreed milestones

MULTIPLE LEVERS FOR GROWTH

- **Diversifying** customers/industries/Geographies
- **CRO to CRAMS** with commercial manufacturing.
- **Capacity Expansion:** In 9MFY21, $53 Mn done. **8** Commerical APIs, **16** drug discoveries, **15** dedicated centers, **7** biologics manufacturing facility, **7** development services & others. **On track to expand total asset base to $550 Mn by the end of FY21**
- **Capability additions:** Stability, analytical and bio-analytical services, viral testing, Oligonucleotide bioinformatics, etc.

ONE STOP SHOP: END TO END PLATFORM

<table>
<tr><th>Discovery</th><th>Development</th><th>Manufacturing</th></tr>
<tr><td>Chemistry</td><td>Drug Substance</td><td rowspan="2">Clinical Supplies</td></tr>
<tr><td rowspan="2">Biology</td><td>Drug Product</td></tr>
<tr><td>Integrated Drug Substance – Drug Product</td><td>HPAPI</td></tr>
<tr><td colspan="2">Safety Assessment</td><td>Specialty Molecules</td></tr>
<tr><td>Integrated Drug Discovery</td><td>Human Pharmacology Unit (Phase 1)</td><td rowspan="3">Commercial Supplies</td></tr>
<tr><td rowspan="2">Therapeutic Antibody Discovery and Engineering; Cell Line Development</td><td>Bio Analytical Lab (Large Molecules)</td></tr>
<tr><td>Stability Services</td></tr>
<tr><td colspan="2">Bioprocess Development, Process Characterisation, Clinical Manufacturing (Microbial and Mammalian)</td></tr>
<tr><td colspan="2">Research Informatics: Bioinformatics, integrative analysis, target dossiers, systems modeling, cheminformatics and AI</td><td></td></tr>
</table>

WHAT WE DON'T LIKE

CLIENT/GEOGRAPHICAL CONCENTRATION RISK

The **top 10 customers** contribute to >50% of revenue and **>60% of revenue and 76% of clients come from the USA.** However, **we at SSS** believe that all CDMOs initially have this concentration risk and **the client/geographical concentration should go down over the lifecycle of a CDMO by adding differentiated projects and new customers across geographies.**

USFDA OBSERVATION RISK

In recent times, we do not get to hear about any major USFDA observations for any Indian Pharma companies.

However, this does not mean that the risk is no longer there.

While Syngene appears to be a very compliant organization from a regulation point of view, regulation risk (read USFDA) will always remain.

EXPECT HIGH COMPETITION GOING AHEAD

As the growth prospects in CDMO/CRAMS are promising for the next few years, several global and domestic players are expected to enter it.

Major players like Piramal and Divi's Labs already have an established presence in this space already. **This could hurt margins going forward as competition intensifies in this space.**

However, **we at SSS believe** that Syngene's robust infrastructure & employee skillset, constant focus on compliance and safety, and established client relationships **are likely to mitigate competitive threats to some extent.**

LONG GESTATION & UNPREDICTABILITY OF PRODUCT SUCCESS & REVENUE LUMPINESS

Drug discovery in general has a high level of unpredictability and long gestation in-built in its business. Moreover, revenues are also lumpy.

Post the onset of COVID-19, the pharma sector is attracting investors' attention. **Hence current valuation (north of 60 times earnings) may not compensate for the various risks discussed above.**

SMART SYNC SERVICES