neo next

~ January, 2023

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Link to our previous newsletters:

Neo Group _ Monthly Newsletter_Nov-22.pdf

Neo Next _ Monthly Newsletter_Oct_2022.pdf

Neo Next _ Monthly Newsletter_Sept_2022.pdf

Executive Summary

Greetings from Neo team!

As we have been re-iterating our stance on resilience of Indian markets in the previous newsletters, '**Resilience at the fore'** and **'Embracing the India story',** Indian equity market was the show-stopper for CY22 with Nifty clocking in a +4% return (though USD denominated return was -5%), much better vs MSCI World (-20%) and MSCI EM (-22%), making it a second consecutive year of outperformance. CY23 would be a transition year where the impact of central banks taming inflation, rates peaking and growth slowing down, plays out.

Fed is expected to slow down the pace of rate hikes (425 bps in CY22 – steepest in decades), but given its focus on restoring price stability, would continue raising rates in H1CY23 (expectation of 55bps in H1CY23 to 5.05% Fed rate). While Fed may soon pause (at ~ 5.05%), though pause is not a pivot, but sizeable rate cuts would be. Further the time before the pause and rate cuts would be a key monitorable given, Fed continually warning against precipitate easing and the pivot to rate cuts getting extended to early 2024 versus end CY23 (Bloomberg expectation of 35 bps decline in H2CY23).

With the RBI raising rates by about 225 bps in CY2022 and tightening liquidity, the MPC is getting close to a pause, with the risk of a final 15-25 bps hike in February review to 6.5%.

In conclusion, we are entering a period of normalization of demand and with a high base last year we could see softening of demand. The most important point to ponder upon is - can inflationary overheating be reversed without a slowdown? Thereby the key to 2023 outlook will be balancing the demand slowdown as a lag impact of increased interest rates and the pace and timing of interest rates cuts with peaking inflation.

While CY23 will be volatile with growth tapering, but the uncertainties seem lower than 2022. While one must be realistic in short term return expectations, Inflation and Interest rates peaking out will be positive for the markets for both bonds and stocks as stated in our last newsletter- **"Interest rate peaks in sight: Further grandness to the plot? "** However, equity valuation multiples in India are higher than long term averages and there is the strain of growth from a recession in the developed world. Thereby we will watch out for India's earnings which have a resilient growth trajectory ahead, at 12% CAGR over FY23-25E, hence India's absolute equity performance may sustain. In 2023, with fears of global recession rising, inflation dropping and tightening ending, bonds will appeal given the yield pick-up.

Warm Regards,

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Balancing growth with inflation in control

Indian equity was the showstopper for CY22 with Nifty clocking in a +4% return (though USD denominated return was -5%), much better vs MSCI World (-20%) and MSCI EM (-22%), making it a second consecutive year of outperformance. The Nifty has given a positive INR return for seven consecutive years now (2015 was the last neg year at -4%), which has happened only thrice since 1985. All this was amidst Russia Ukraine War, 30-year high inflation in US, commodities skyrocketing and then retracing, fastest pace of increase in Fed rates, energy crisis in Europe and China Lockdown.

As stated in our earlier newsletter a fundamental change in the global monetary policy stance means long term Interest rates in the developed world will remain significantly higher than the average of the last decade, which had excesses built. High interest rates globally had a drastic impact on growth stocks. NASDAQ was sharply down by 33% for CY2022.

Cost of repricing lower in India: The cost of repricing has been lower in India. This has led to India having less adjustments to make on monetary policy vs the developed world, with inflation and long-term bond yields close to long term averages and aggregate Debt/GDP lower than 15 years ago. However, from hereon, one should continue to be realistic on return expectations from Indian Equities.

CY23: Volatility with seemingly less uncertainties versus 2022: While CY23 will be volatile with growth tapering, but the uncertainties seem lower than 2022. CY23 would be a transition year where the impact of central banks taming inflation, rates peaking and growth slowing down, plays out. Though US inflation has peaked out and expected to finally moderate in 2023, it is likely to remain well above the target of 2% by the year end. As rates will be higher for longer, growth will taper off globally.

Rate cut timing, the key pivot: Fed is expected to slow down the pace of rate hikes (425 bps in CY22 – steepest in decades), but given its focus on restoring price stability, would continue raising rates in H1CY23 (expectation of 55bps in H1CY23 to 5.05% Fed rate). While Fed may soon pause (at ~ 5.05%), though pause is not a pivot, but sizeable rate cuts would be. Further the time before the pause and rate cuts would be a key monitorable given, Fed continually warning against precipitate easing and the pivot to rate cuts getting extended to early 2024 versus end CY23 (Bloomberg expectation of 35 bps decline in H2CY23).

With the RBI raising rates by about 225 bps in CY2022 and tightening liquidity, the MPC is getting closer to a pause, with a risk of final 25 bps hike in February review to 6.5%. If global financial conditions remain benign, growth slows in 2023 and inflation rolls over, the RBI is expected to modestly ease policy rates by 15 bps at the end of the CY23.

Demand slowdown with lag impact of rising Interest rates

With the steepest increase in interest rates, by 450bps by Fed over the last 12 months, will lead to a decrease in discretionary spend, impacting demand. Further investment cycle and global liquidity may get impacted in the short term with reducing balance sheet.

Global economy is expected to slow down in 2023 due to lag impact of rising rates globally, partially offset by a recovery in China. The outlook for US has been weakening with US real GDP growth expected to be at mere 0.4% YoY in CY2023 versus 2.6% earlier forecasted (vs 1.8% in CY22) as aggressive rate hikes by the Fed start to affect demand. In recent press conference Fed Chair has recognised narrowing of soft landing. RBI too has been guiding for a soft GDP growth as we move towards the end of this fiscal from 7% to 6.8% for FY23. While the slowdown in USA, UK and Eurozone can impact India due to our exports to these economies, India's GDP seeing marginal downgrade vs other major economies. Further, going forward, with global recovery in CY2024, real US GDP growth rate is expected at 1.4%.

In conclusion, we are entering a period of normalization of demand and with a high base last year we could see softening of demand. The most important point to ponder upon is - can inflationary overheating be reversed without a slowdown? Thereby the key to 2023 outlook will be balancing the demand slowdown as a lag impact of increased interest rates and the pace and timing of interest rates cuts with peaking inflation.

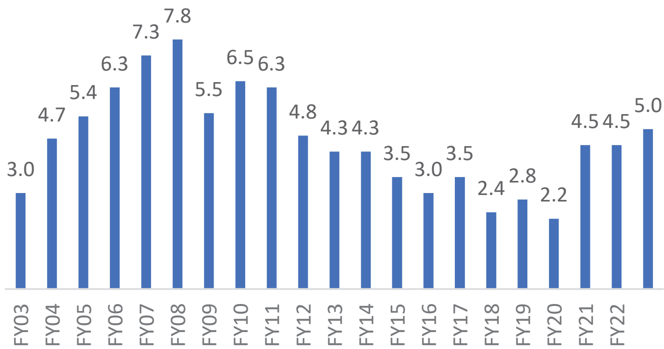
While India decoupled amidst the Global turmoil, can it sustain?

India's economy should continue to exhibit strength based on many macro indicators including strong government revenue collections, low corporate and bank leverage, and stable external position. This should insulate India to some extent from a global slowdown that sharp interest rate increases in western economies will cause. We also do not see a major downside risk to corporate earnings growth in the near-term as domestic demand is resilient, rural recovery is expected going forward, credit growth is on an uptrend, and commodity prices remain well below their recent highs. Despite challenging times, most Indian corporates have been able to increase their productivity and profitability, leading to improvement in ROEs versus pre-covid levels and well above the last 10year average. With many sectors performing better than even the pre-covid period, corporate-profits to GDP in India is showing a turnaround.

Improving corporate earnings trajectory

With India's earnings having a resilient growth trajectory, expected at 12% CAGR over FY23-25E, India's absolute performance may sustain. Earnings growth in FY24 would be driven by Banking, IT, Capital Goods / industrials, Auto and Oil & gas. Further the decline in Metals and Mining is expected to come off.

Chart1: Corporate Profit to GDP (%)



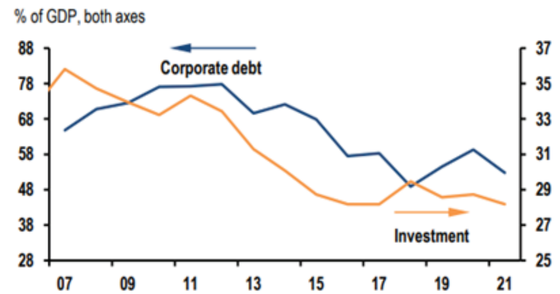
Source: Bloomberg

Private Investment: Structural headwinds abate, cyclical headwinds remain

The good news on the investment front is that the twin-balance sheet constraint that had held investment back for almost a decade appears to have largely alleviated. Years of deleveraging, helped by a profit surge during the pandemic, has meant that corporate debt/GDP is at its lowest level in 2006. Similarly, bank balance sheets are much improved, enabling banks to lend more freely again.

After 15 years, private capex has reached the 2008 level and is emerging across sectors, so confidence on the capital goods space is emerging with comfort on margins. While valuation is slightly higher, but the cycle can be longer. Further deleveraging has played out, hence as the cycle picks up, the operating and financial leverage will play out. But a broader private investment cycle will take time to fructify amidst elevated global uncertainty, slowing growth, tightening monetary conditions, manufacturing utilization rates still <80%.

Chart2: Corporate Debt and Investment as a % of GDP



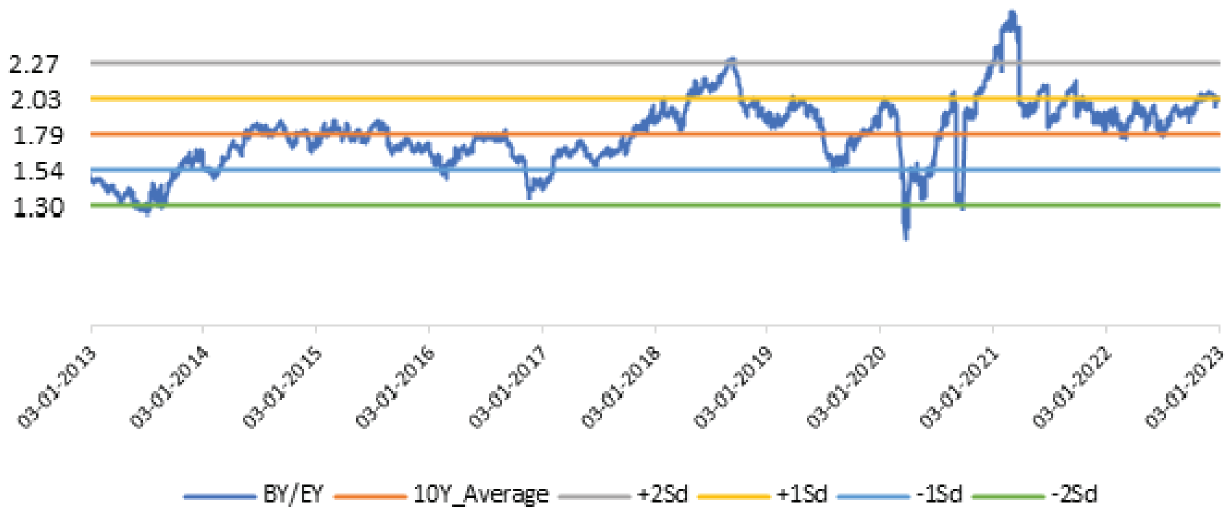
Source: MOSPI, RBI

Amidst the changing global macro backdrop, India is in a relatively better position. We are more domestic demand driven, there is political stability with a progressive reform agenda, and overall liquidity could improve with government spending before next general elections. India's real GDP growth is projected to be 5.8% YoY in FY24 driven by improved contribution from Consumption and Investment. Over a longer term, positive levers in the form of strong political leadership driving the pace of reforms, demographic dividend, China+1 strategy, Domestic Manufacturing, and Digital push should drive India to become the 3rd largest economy by 2030.

India Equity Outlook

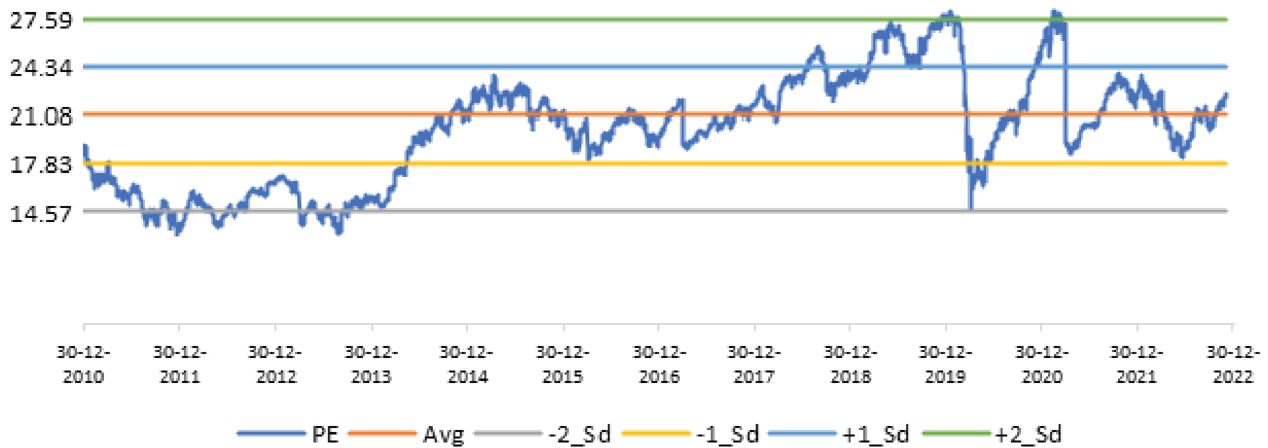
India is trading at valuation premium relative to both MSCI EM and DM. Nifty is trading at a P/E of 21.1x on FY23 EPS and 18.2x on FY24 EPS, is now marginally above average and even bond yield-equity earnings yield valuation is at one standard deviation on a long-term basis.

Chart 3: India Bond Yield Earnings yield gap (BYEY): At 1 SD



Source: Bloomberg

Chart 4: Nifty 50 forward P/E; slightly above average



Source: Bloomberg

However, India's earnings momentum has held up better than emerging peers. Further with earnings having a resilient growth trajectory ahead, at 12% CAGR over FY23-25E, India's absolute performance may sustain. Continued strength in earnings will provide downside protection despite above range valuations in a slowing global demand environment, keeping markets range-bound in the near term.

Nifty EPS growth expected to be higher in FY24

Earnings growth in FY24 would be driven by Banking, IT, Capital Goods / Industrials, Auto and Oil & gas. Further the decline in Metals and Mining is expected to come off.

Table 1: Nifty Sectoral EPS

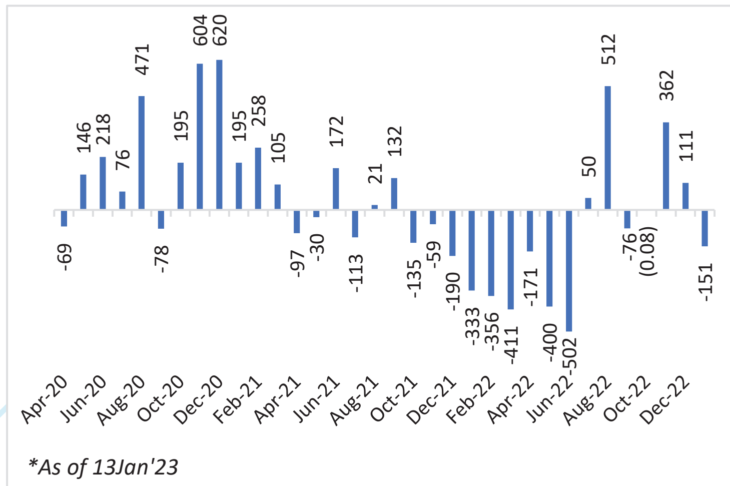
Sector	Nifty EPS growth			Sector-wise contributi to EPS growth		
	FY22A	FY23E	FY24E	FY22E	FY23E	FY24E
BFSI	32%	29%	16%	25%	83%	34%
IT	13%	5%	15%	5%	6%	11%
Oil & Gas	38%	4%	15%	15%	6%	14%
Consumer	10%	19%	14%	2%	11%	6%
Auto / Auto Anc	1116%	205%	67%	4%	27%	16%
E&C / Infra / Cap. Goods	-24%	32%	24%	-3%	9%	5%
Metals and Mining	223%	-38%	2%	36%	-55%	1%
Utilities	29%	-8%	9%	3%	-4%	2%
Pharma	19%	53%	17%	1%	9%	3%
Cement	70%	-19%	24%	2%	-2%	1%
Telecom	128%	131%	64%	8%	7%	5%
Retail	120%	49%	20%	1%	1%	0%
Healthcare	578%	-8%	42%	1%	0%	0%
Chemicals	23%	27%	19%	0%	2%	1%
Nifty EPS	46%	11%	17%			
Nifty EPS (ex-Financials)	46%	7%	18%			

Source: Ambit

Flows: Short term slow, medium term India well positioned

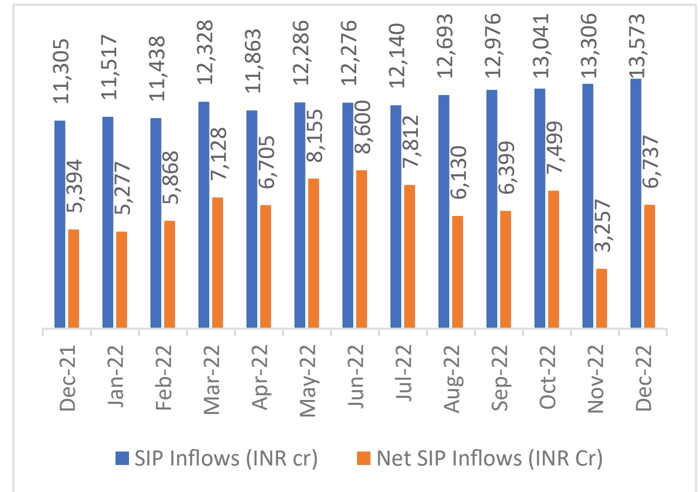
Once the US fed tightening cycle is over, EM typically start receiving flows again. We don't expect hurried FII selling in India but receding global liquidity and China reopening and above average valuations for India may impact in the near term.

Chart 5: Monthly FPI/FII Net Investments (INR bn)

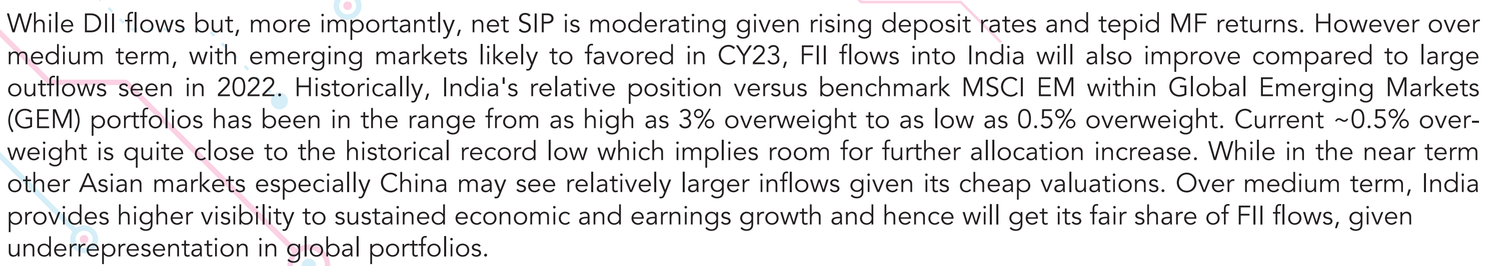


Source: CDSL

Chart 6: Net SIP flows moderating



Source: AMFI



While DII flows but, more importantly, net SIP is moderating given rising deposit rates and tepid MF returns. However over medium term, with emerging markets likely to favored in CY23, FII flows into India will also improve compared to large outflows seen in 2022. Historically, India's relative position versus benchmark MSCI EM within Global Emerging Markets (GEM) portfolios has been in the range from as high as 3% overweight to as low as 0.5% overweight. Current ~0.5% overweight is quite close to the historical record low which implies room for further allocation increase. While in the near term other Asian markets especially China may see relatively larger inflows given its cheap valuations. Over medium term, India provides higher visibility to sustained economic and earnings growth and hence will get its fair share of FII flows, given underrepresentation in global portfolios.

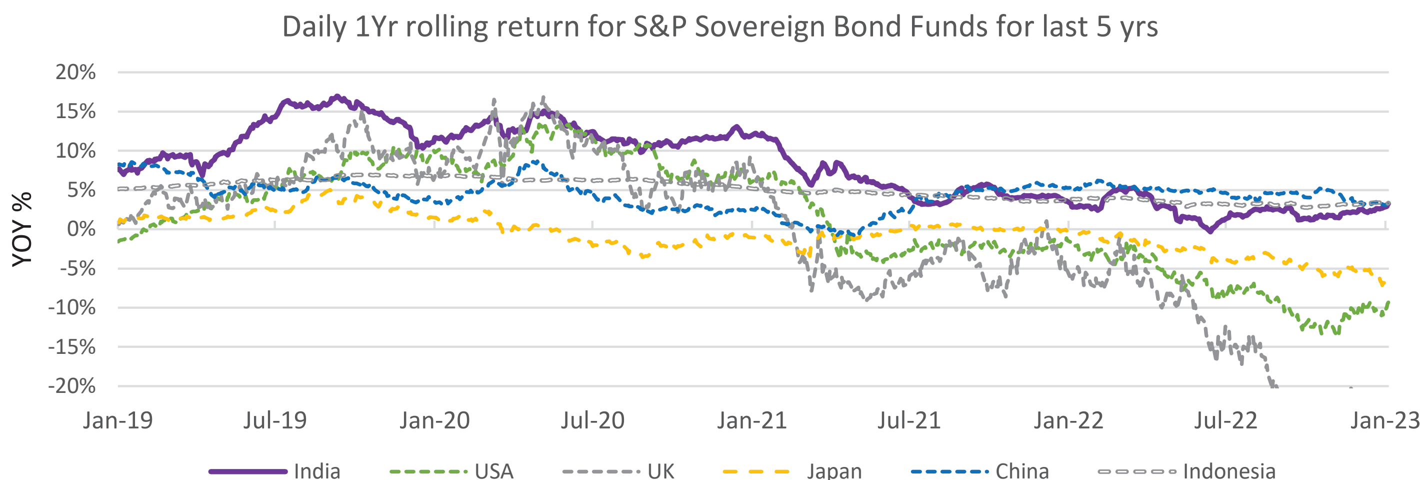
While one must be realistic in short term return expectations, Inflation and Interest rates peaking out will be positive for the markets for both bonds and stocks. However, valuation multiples in India are higher than long term averages and there is the drag of growth from a recession in the developed world. Thereby we will watch out for India’s earnings which have a resilient growth trajectory ahead, at 12% CAGR over FY23-25E, hence India’s absolute equity performance may sustain. In 2023, with fears of global recession rising, inflation dropping and tightening ending, bonds will appeal given the yield pickup.

Historically, amongst various asset classes, equity returns have been significantly better in the period after the last rate hike than immediately before the last rate hike. As the US economy slows and inflation moderates, and the Fed slows the pace of rate hikes, should be positive for commodities and Emerging Markets. Emerging markets are expected to lead the recovery lead by China (as it emerges from lockdowns) and Korea. 2023 can be the beginning of emerging markets outperforming Developed markets after 12 years of underperformance. It’s quite astonishing that post the Global financial crisis in 2008, the NASDAQ is up 6 times in 12 years (even after the 30pct decline this year) while the emerging markets have given zero returns.

India Debt Outlook

While equities and commodities wriggled in 2022, but US treasury recorded their worst year in decades driven by rapid tightening and sticky inflation. In 2023, with fears of global recession rising, inflation dropping and tightening ending, bonds will appeal again.

Chart 7: Yield trend of the major economies



Source: Bloomberg

Central banks across the world have synchronously hiked interest rates in response to elevated inflation. As a result, globally, there has been a steep rise in yields across all tenors and in few economies the yield curve has inverted. Inversion in yield curve generally indicates probable recession. However, yield curve in India has flattened where short tenor rates have increased sharply whereas longer end hasn't been impacted on similar lines.

The above graph plotted considers rolling return (which is a measure of investment performance that's calculated based on historical data gathered over a specific time frame) suggests that India's G-sec has outperformed and delivered better returns as compared to many other peers.

Going forward

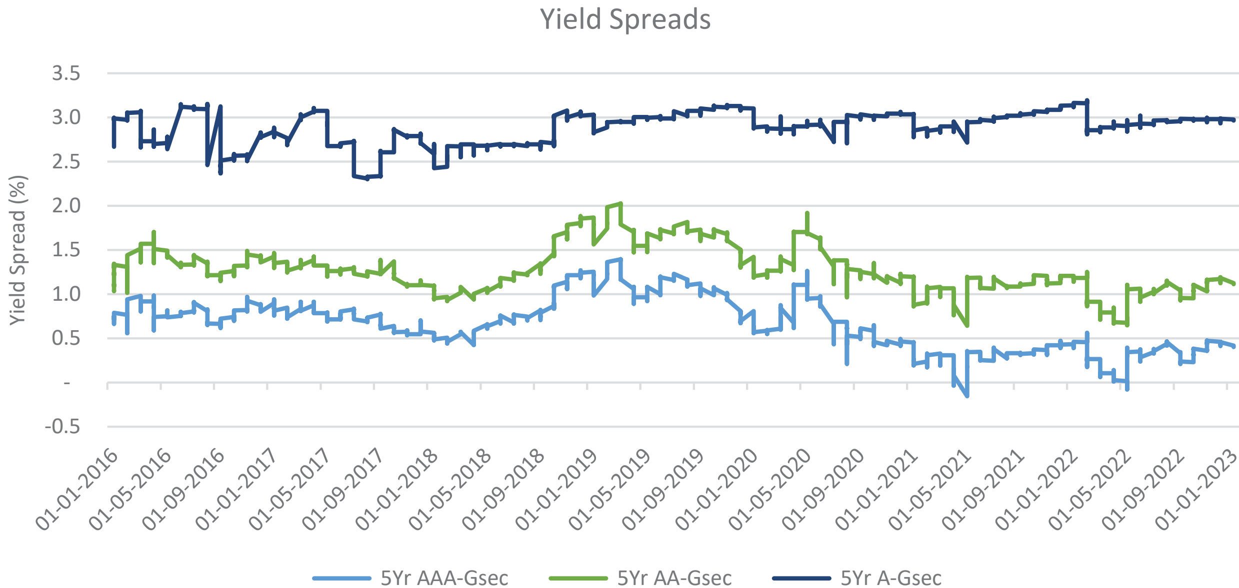
The Indian economy is seen expanding 6.8% in the 2022-23 fiscal year according to government estimates released in early January. The RBI Governor in monetary policy as well as in minutes of the meeting mentioned that "India is widely considered as a bright spot in an otherwise gloomy world. Indian economy remains resilient. Our financial system remains stable. Banks and corporates are healthier than before. Yet inflation remains elevated. Global spill overs continue to impart high volatility and uncertainty."

Hence, RBI would be focused on keeping inflation under the trajectory and simultaneously attaining projected GDP growth. In such case, we expect RBI to hike rate by further 15-25 bps to keep the terminal rate closer to 6.50% post which they would take wait and watch approach. The Governor also mentioned that they would keep sufficient liquidity in the system, so we expect it to remain closer to neutral and not turn widely negative in FY2023-24.

Yield Spreads

The graph depicts, the spread between 5-year G-sec AAA and AA to 5-year A is reasonable. We believe this could be a good opportunity to add some portion in credit segment. Since currently we are in a phase of near to peak interest rate cycle, lower leverage levels of Indian corporates, we expect the spreads to narrow from here.

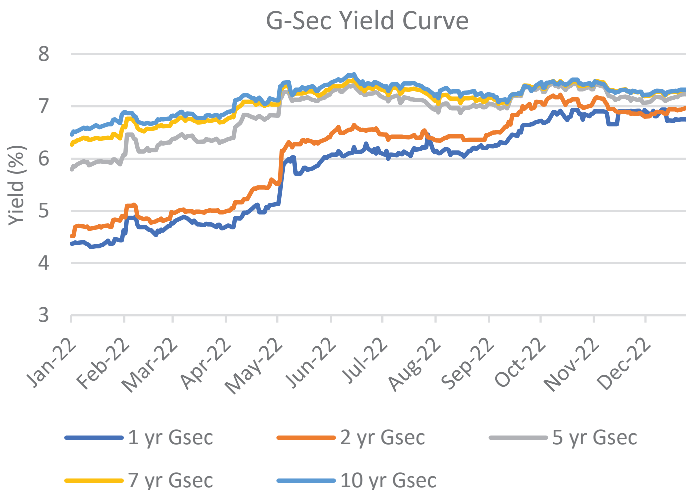
Chart 8: Yield Spreads



Source: Bloomberg

As we see India's G-sec yield curve is flattened, meaning shorter tenor yields have risen more than the longer tenor bench-mark. The shorter to middle segment of yield curve witnessed more rise in yield as compared to longer segment G-sec mainly due to fast paced rate hikes by central bank and withdrawal of liquidity which was triggered by post Covid easing. This year we feel there might be slower than expected rate hikes and a probable pause, as both Inflation and Growth are hovering in moderate zone. We understand shorter to middle segment of the curve is near peaking in turn making it a very attractive pace to build your portfolio.

Chart 9: G-sec Yield Curve across different maturities



Source: Bloomberg

Chart 10: Yield comparison

Source: Bloomberg

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Key Portfolio Update

Equities: Outlook ahead

While one must be realistic in short term return expectations, inflation and interest rates reaching its peak will be positive for the markets ahead over next few months. While valuation multiples in India are higher than long-term averages and there is the drag of growth from a recession in the developed world. Our portfolio companies with reasonable pricing power and earnings growth should be resilient in a challenging environment and provide the compounding overtime. We remain positive on manufacturing and capex-oriented companies, BFSI space with a bias toward banking and sub segments like Insurance, AMC, rating agencies, automotives and some consumption plays for the next 18-24 months. Our focus currently is to make sure our companies across our portfolio have limited downside in regard to valuations & have reasonably good earnings visibility. We favour strong idiosyncratic earnings growth at reasonable prices on their historic valuation bands.

Insurance

The life insurance sector has underperformed vs the financial pack over the last year, as the sector was adversely impacted by the second wave of Covid-19, the increase in reinsurance prices for Term Life insurance, shifting regulatory landscape and lack of policy growth. In CY23, we see the sector benefiting from an increase in demand for term life insurance driven by the pricing stabilizing, reinsurer becoming more accommodative and emergence of new products.

Life Insurance industry saw strong growth in CY22 driven by demand for savings products, especially, guaranteed return and retirement products. High margin retail protection was impacted by increase in reinsurance pricing. In 2023, we expect the industry to deliver mid-teen premium growth along with steady margins, owing to a well-diversified distribution mix, rebound in retail protection and continued demand for annuities. General Insurance industry has seen healthy ~16% premium growth YTD. We expect continued growth in 2023 led by health insurance, though motor business can see some slowdown in near term on moderation in Autos volume growth. Combined ratios could improve on lower claims. Despite strong fundamentals, sector has de-rated through 2022 and is now trading at trough levels. Hence, we believe sector looks highly attractive. There is an expectation of 15%/18% APE/VNB growth over FY23-25E for Life Insurers leading to EV growth of 17%.

New addition: ICRA

With corporate leverage at its lowest in recent years and PAT-to-GDP set to bounce back, the outlook for capex cycle recovery is improving notwithstanding the high interest rates. That said, with India's investment cycle correlated with global capex cycle, a significant uptick appears to be a few quarters away. Non-rating businesses of ICRA have seen a stellar run in the past 18 months..

Banking

Overall, banks are on a much stronger footing leading into CY23 than in the past, with healthy capitalisation (CAR of 16.7% as of FY22), a strong liability profile, diversified asset mix and healthy asset quality — along with strong coverage ratios as well as additional buffer provisions. Loan growth over FY23-25E is expected to pick up over previous years, aided by higher corporate demand as also continued strength in Retail Loan growth. Margins are expected to remain broadly stable, despite timing mismatches in re-pricing of assets versus liabilities. Credit costs are expected to be below long-term averages, owing to improved asset quality including better underwriting, lending to higher-rated Corporates and diversification of the overall loan mix. This would be further aided by sizeable provision buffers built up by large Banks that could be used to cushion earnings.

Key trends: Loan growth for the sector is currently trending at 17% YoY — the highest since FY20 — with ~6/9% YoY growth witnessed in FY21/22. Going forward, Bank Credit growth is expected at ~15% YoY in FY23/24, on the back of corporate demand and strong balance sheet of lenders. Margins should remain largely above FY22 levels. Asset quality for the sector has improved notably, with GNPA ratio down 5.9% as of FY22 from the peak of 11.2% in FY18 (lowest since FY15). This has been driven by faster clean-up, improved underwriting, and diversification of loan mix.

Automotives

The year 2022 saw Auto stocks (except ones with global exposure) outperforming broad markets. Volume growth was strong across segments (9-44%); there was expectation of margin improvement. As we look into 2023 (overlapping with FY24), volume growth may stay positive, but rate of growth would come off. In FY23, OEM EBITDA growth is expected at 55% with revenue up 34%. Further EBITDA growth In FY24 and FY25 is also expected at 32% and 15%, respectively.

Capital Goods

Indian Capital Goods sector continues to play in the sweet spot of sustained increase in government spending. This comes on essential Infrastructure, pickup in Private sector capex in core and emerging sectors, increasing share in global Supply Chain for Electrical and Electronic products (China Plus One) and visible increase in Manufacturing capex. Preceding General Elections 2024, the year 2023 will be buoyed by thrust on execution and new project awards, especially government sector. Valuations have rerated in CY22, reflecting high cyclical growth expectations, leaving little headroom for rerating. We prefer market leaders — with strong franchise, balance sheet and returns profile, as also opportunity — to play the capex cycle.

Outlook: Growth visibility remains strong, supported by strong inflows and order book. Improvement in customer cashflows will aid acceleration in execution, as also ease NWC-related stress witnessed in CY22.

Industrials

Centre-led infra impetus, rail, defence, power value-chain and new infra creation coupled with debottlenecking/efficiency-led capex provide healthy growth opportunities. We remain positive on companies like Timken India, refractory players like RHI Magnesita and defence led by healthy opportunities in the above segments.

SP Apparels: Exit

About 90% of SPAL's revenue comes from exports (predominantly to the UK) and 60% of revenues comes from top two customers. While kids wear category is less impacted by global recession, with slowdown in the global demand environment would act as a key risk to export earnings in the near term. With near-term outlook looking uncertain we are paring exposure to the stock.

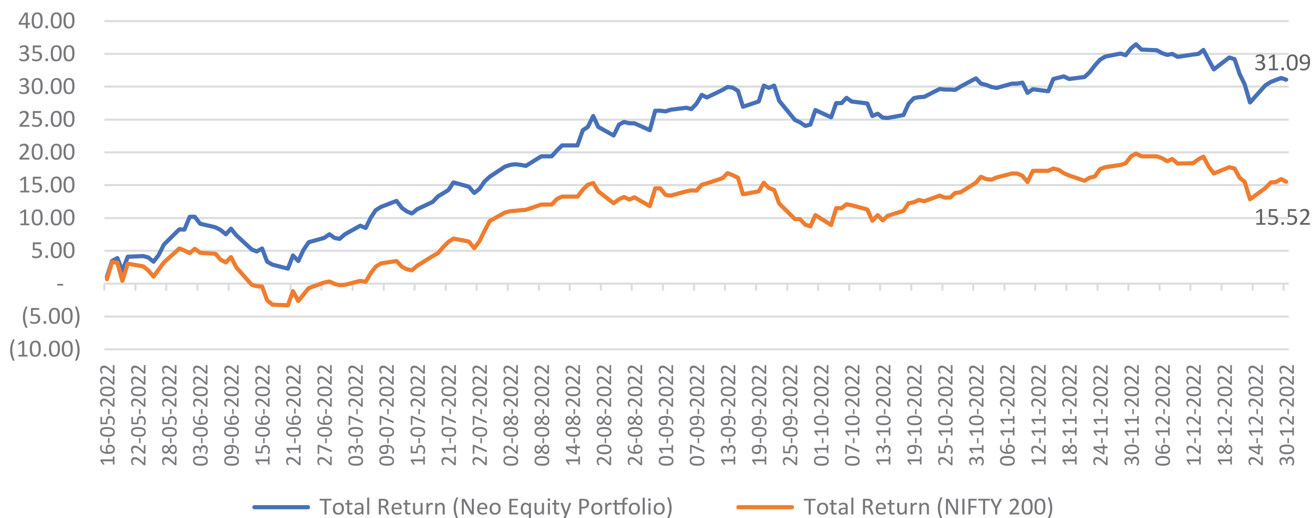
Neo Equity: Portfolio stocks and performance

Ideal Holding Period – 18 to 24 months

Sr. No.	Company	Sector	Weight	Recommendation	%Change (May-22 to Dec-22)
1	ITC	FMCG	5.00%	BUY	31%
2	Mrs. Bectors Food	FMCG	4.00%	BUY	46%
3	Eicher motors	Auto	3.00%	BUY	34%
4	Hero Motocorp Ltd	Auto	3.00%	BUY	13%
5	Maruti Suzuki India Ltd	Auto	5.00%	BUY	19%
6	M&M	Auto	3.00%	BUY	42%
7	Reliance Industries Ltd	O&G	4.00%	HOLD	5%
8	HDFC bank	Banking	9.00%	BUY	26%
9	HDFC	Banking	5.00%	BUY	25%
10	Kotak Mahindra bank	Banking	3.00%	BUY	3%
11	ICICI bank	Banking	5.00%	HOLD	32%
12	Axis bank	Banking	4.00%	BUY	47%
13	ICRA Ltd	Ratings	4.00%	BUY	NEW
14	HDFC AMC	AMC	4.00%	BUY	26%
15	SBI Life	Insurance	3.00%	BUY	18%
16	Titan	Consumer discretionary	3.00%	HOLD	25%
17	VIP Industries	Consumer discretionary	4.00%	BUY	11%
18	KSB	Capital goods	4.00%	HOLD	53%
19	3M India	Capital goods	4.00%	BUY	26%
20	Timken India	Capital goods	3.00%	BUY	66%
21	Vesuvius India	Capital goods	7.00%	BUY	66%
22	RHI India	Capital goods	5.00%	HOLD	55%
23	Hindustan Aeronautics	Capital goods	3.00%	HOLD	70%
24	Ultratech cement	Cement	3.00%	BUY	13%

Model Portfolio performance between 13th May-22 to 30th Dec-22

Chart 11: Portfolio Effect as on 30th Dec 2022



Disclaimer: These are not our recommendations. Kindly consult your advisor for independent decision making.

Debt

5.875%, Jaguar Land Rover Auto, 15/01/2028

About the Instrument:

Current Yield: 11.091%
Coupon: 5.875% payable semi-annually
Current Price: $80.409 (yield and price as of 13th Jan 2023)
Rating: B+ (S&P), B1 (Moody's)

In 2021 S&P upgraded JLR and other Tata group bond ratings. Main reason for upgrade: "The upgrades reflect our view the credit profiles of the various Tata Group entities are strengthened by their importance to Tata Sons, with potential for financial support, if required. We also expect Tata Sons to have a positive influence on the long-term strategy, financial policies, and funding access of its group entities. We regard the credit quality of Tata Sons to be strongly investment grade."

Table 2: Our Rationale for investment

	Comments
Support of Tata Group	Historically there has not been any defaults or delay in payments by any Tata Group companies. Tata Sons has extended support to its subsidiaries as and when needed. In FY20 and FY21 Tata Sons provided financial support to TML through funds infusion to the tune of Rs. 6,494 Cr.
Attractive Post tax returns	With the yield spreads widening in the last two months, post tax returns (with indexation benefit) for a 3-year holding period assuming rates softening by 100 bps by 2026 comes to dollar returns of ~10-12% whereas a 2028 Tata Motors bonds in domestic markets is quoting at 8.17%
Revenue improvement over quarters	In FY22, JLR reported losses because of decline in volumes due to shortage of semiconductor chips. Going forward with chip companies increasing capacities and China opening up normalization of semiconductor supply issues and inventory level are expected. This should improve the revenues and margins, going forward. JLR has a healthy order book of 2,00,000 units for its different products.
Strong financials of the parent company- Tata Motors	Tata Motors has largest market share in Commercial vehicles segment in India. On a consolidated level 61% of Tata Motors is from JLR Ltd. Management has stated in their commentary the intention to reduce net debt substantially over the next 2-3 years driven by increased volumes at JLR driving free cash flow generation, equity infusion by TPG Rise, and monetization of investments.

About: JLR Limited

Is a UK manufacturer of premium passenger cars and all-terrain vehicles under the Jaguar and Land Rover brands. JLR is 100% owned by Tata Motors Ltd (TML), which is India's largest automobile company. TML acquired JLR in 2008 from Ford. The company generated 40% of FY22 unit (retail) sales in Europe (of which 19% in the UK), 21% in North America, 26% in China (including JV) and 14% in other Overseas markets.

Tata Motors:

Incorporated in 1945, TML is India's largest automobile company and the market leader in the domestic CV industry and one of the top three manufacturers of PVs in India. TML is a part of the Tata group, which comprises 30 companies across 10 verticals.

Table 3: Key Financials – JLR Limited

Particulars (GBP m)	1HFY23	1HFY22
Net Revenues	9,666	8,837
Total Expenditure	8,846	8,105
EBITDA	820	732
EBITDA Margin (%)	8.5%	8.3%
EBIT	-150	-220
Interest Expenses	219	169
Reported PAT	-580	-667
PAT Margin	-6.0%	-7.5%
Net worth	2867	4434
Total Debt (Current + Non-current)	7479	6954
Cash& cash equivalents (Incl. short term invts)	3555	3537
Short Term Investment	161	258
Net Debt	3763	3159
Debt/EBITDA	4.59	4.32

TML reported market share of 44.9% in Commercial Vehicles in and 12.1% in Passenger vehicle segment as of FY22. As of Sep-22, company on a consolidated level free cash flow of Rs10bn with a Debt to EBITDA of management is maintaining its outlook of becoming net auto debt free by FY24-end

Table 4: Key Financials – Tata Motors

Particulars (INR cr)	1HFY23	1HFY22
Net Revenues	1,51,546	1,27,785
EBITDA	14,590	13,472
EBITDA Margin (%)	9.6%	10.5%
Reported PAT	-5,991	-8,797
Net worth	26,175	44,676
Total Debt (Current + Non-Current)	1,36,494	1,41,778
Cash& cash equivalents (Incl. short term invts)	30,589	30,330
Short Term Investment	15,535	17,695
Net Debt	90,370	93,753
Debt/EBITDA	6.19	6.96

Piramal Capital & Housing

About The Security:

Table 5: About – Piramal Capital & Housing

Issuer	PIRAMAL CAPITAL & HOUSING FINANCE LIMITED
Issuance	Rated, Listed, Secured
Coupon	6.75% payable half yearly
Maturity	26-Sep-31
Date of Allotment	28-09-2021
ISIN	INE516Y07444
Repayment Schedule	5% p.a. for years 1-5, 15% p.a. from year 6-10. Final Repayment on 26-Sep-31
Security Cover	First Pari passu charge over receivables
~Current Yield	10.70%
~Price	83.1115

*Piramal Capital & Housing Finance is 100% subsidiary of Piramal Enterprises; hence our evaluation is at consolidated entity level

Rationale for investment:

- Mispricing of the bonds because of excess supply in the market as company had to issue Rs19,550 crs of NCD's as part of the payment for the acquisition of Dewan housing Finance limited.
- One of the lowest gearing ratios of ~ 2 times in the NBFC space giving company the scope to grow and weather any negative credit events.
- Piramal historically has been into wholesale lending primarily in real estate which had inherent risks of concentrated portfolios. However, the amalgamation with DHFL has facilitated an improvement in the diversification and granularity of the loan portfolio. As of Sep-22 retail portfolio was 43% of the total loan book (pre-merger:12%) which is more granular in nature with lower NPA's.
- Wholesale book is on run down. Going forward, company incremental disbursements will be concentrated to retail segment.
- Additionally over and above cash and cash equivalents, Company has Rs 5700crs investments in Shriram Group which in the going times could be liquidated.
- Positive cumulative Asset Liability Management (ALM) across all maturity buckets.

Business Update:

- Piramal Enterprises Limited (PEL) is a non-banking financial company (NBFC), which got registered with the Reserve Bank of India (RBI) w.e.f. July 22, 2022.
- The company received its NBFC licence as a part of a planned corporate restructuring, whereby the pharma business was demerged from PEL. Further, PFPL, a wholly owned subsidiary of PEL and the NBFC of the Group, was merged into PEL w.e.f. August 12, 2022.
- It provides finance to both wholesale and retail segments. Retail Lending: Retail lending grew to 43% of loan book now, from 12% pre-merger. Wholesale Lending: AUM reduced by 13% in last 12 months.

Financial Update as H1-23:

Completed the demerger of Piramal Pharma. Reporting first quarterly results for PEL as a listed NBFC.

- Piramal Enterprises reported a consolidated loss of ~Rs1540crs in 2QFY23 primarily because of sharp spike in provisioning primarily due to forward flow of assets to stage 2. Post this, the company has largely completed asset recognition cycle.
- In, Q2-23 Rs 5,888 Cr of assets moved from stage 1 to stage 2. As of Sep-22, total assets under Stage2 is Rs 9,800 crs.
- Total AUM declined by 5% YoY to Rs63,800crs. The share of the Retail loan book rose to 43% (v/s 12% premerger).
- Strong balance sheet with equity of INR 27,472 Cr available for organic as well as inorganic growth
- Capital Adequacy Ratio of 23% & Net Debt to Equity ratio at 2x for lending business
- Cash and cash equivalents of INR 6,984 Cr
- At D/E of less than 2 and adequate liquidity cushion, the company has enough equity buffer to absorb losses even if 50% of the Stage 2 book becomes delinquent

Appendix:

Table 6: Key Financials – Piramal Capital &

P&L Consolidated (INR cr)	H1 FY23	H1 FY22
Operating Income	4,077	3,207
Interest Expense	2,064	1,857
Net Interest Income	2,013	1,350
Total Income	2,099	1,400
Operating expenses	983	419
Profit After Tax	-1,769	854
Exceptional (Expense)/ Gain: In Aug-22 NCLT order approved the demerger and the business was re-valued in line with Ind-AS 10	8,066	-153
PAT after exceptional item	6,619	952

Ratios	H1 FY23	H1 FY22
Yield	10.90%	11.40%
Cost of Borrowing	8.80%	8.70%
NIM%	4.60%	5.10%
Cost Of Income	55.30%	47.30%
Gross Debt to Equity	2.4x	2.4x
Net Debt to Equity	2.0x	2.0x

Disclaimer: These are not our recommendations. Kindly consult your advisor for independent decision making.

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