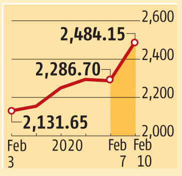
STOCKS IN THE NEWS

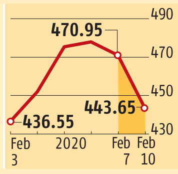
Avenue Supermarts



Market capitalisation hit new high of ₹1.56 trillion

₹2,484.15 CLOSE
▲8.64% UP*

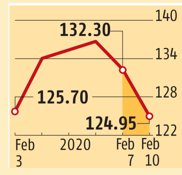
Tata Steel



Q3 net loss at ₹1,085 cr, against profit at ₹2,284 cr in year-ago qtr

₹443.65 CLOSE
▼5.80% DOWN*

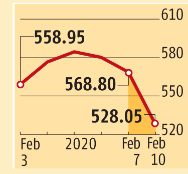
Motherson Sumi Systems



Q3 profit before tax down 44% at ₹463 crore; YoY

₹124.95 CLOSE
▼5.56% DOWN*

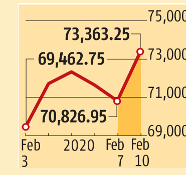
Mahindra & Mahindra



Q3 PBT down 55% at ₹868 crore; YoY

₹528.05 CLOSE
▼7.16% DOWN

MRF



Q3 Ebitda margin improved to 15.3%, from 13.9% in year-ago quarter

₹73,363.25 CLOSE
▲3.58% UP*

* OVER PREVIOUS CLOSE

IN BRIEF

BSNL, AI and MTNL biggest loss-making PSUs: Survey

ONGC, Indian Oil Corporation, and NTPC were the top three profitable PSUs in 2018-19, whereas BSNL, Air India and MTNL incurred biggest losses for a third consecutive year, according to the Public Enterprises Survey 2018-19 tabled in Parliament on Monday. The survey, which maps the annual financial performance of all central PSUs, revealed that the top 10 companies in the red claimed a whopping 94.04 per cent of the total losses made by all the 70 loss-making central public sector enterprises during the year. PTI

Rathin Roy among 3 inducted into CG Power board

CG Power and Industrial Solutions announced appointment of three independent directors — Pradeep Mathur, Rathin Roy and Aditi Raja — in strategic positions for its Indian operations. The firm said it was committed towards amalgamating a right mix of C-suite executives who would act as consultants and functionaries in a multi-dimensional global market. BS REPORTER

Isuzu starts press shop and engine assembly plant

Japanese utility vehicle manufacturer Isuzu Motors India has started its Phase-II operations at SriCity. The company inaugurated a new Press Shop facility and an engine assembly plant have been installed at an investment of ₹400 crores. The Press Shop and the Engine Assembly will further strengthen the company's operations by bringing very important aspects of manufacturing, in-house, said the firm. BS REPORTER

Ankur Capital plans to make entry into venture debt space

Ankur Capital is now evaluating to enter the venture debt space, said a top executive. The Mumbai-headquartered VC firm, which recently closed the first round of its second fund at ₹240 crore, is already in discussions to start a third fund that could run parallel with the second one. BS REPORTER

Tata Products new name for Tata Global Beverages

Tata Global Beverages said that the arrangement with Tata Chemicals was now operational. This means that the demerger of the consumer brands of Tata Chemicals announced last year had been completed and the business had been transferred to Tata Global. The latter has been renamed Tata Consumer Products. BS REPORTER

DGCA suspends IndiGo pilot for threat to flyer

Aviation regulator DGCA suspended an IndiGo captain for three months for allegedly intimidating and threatening a wheelchair-bound senior citizen in a Chennai-Bengaluru flight on January 13, an official said. During investigation, it was found that the pilot-in-command 'insisted' on an apology letter from the senior citizen and her daughter detaining them for about 75 minutes. PTI

Our entire product range compliant with BS-VI: Volvo

Volvo Cars India said its entire range in the country now conforms to BS-VI emission norms. All cars assembled at the company's plant or imported are now BS-VI certified, Volvo Cars India said. PTI

1,200 products for component makers launched in Auto Expo

400 companies launched 1,200 new products at the AutoExpo 2020 for component makers. Leading automakers including Maruti Suzuki, Tata Motors, Kia Motors and Ashok Leyland showcased their products. According to the organiser ACMA, foreign companies from Japan, Germany, South Korea attended the show." PTI

Grasim reports profit before tax of ₹1,454 crore

Consolidated revenue of Grasim Industries for the December quarter stood at ₹19,205 crore, while the consolidated Ebitda came in at ₹2,968 and PBT at ₹1,454 crore. For December 2019, consolidated revenue was up by 5 per cent at ₹57,724 crore and consolidated PBT was up 23 per cent to ₹6,387 crore on a year on year basis. BS REPORTER

Car sales skid 6.2% in Jan as buyers ignore discounts

Coronavirus effect adds to the downtrend in sales; BSE Auto Index slips over 2%

ARINDAM MAJUMDER
New Delhi, 10 February

Sales of passenger cars continued to decline in January despite significant discounts by automakers. This indicates that the sector is yet to recover from the worst auto slowdown in India in more than a decade.

Domestic passenger vehicle sales fell 6.2 per cent year-on-year to 262,714 units in January, from 280,091 in the same period last year, according to the data released by the Society of Indian Automobile Manufacturers (Siam).

On Monday, auto stocks witnessed a massive fall due to the widespread impact of weak January sales and fear of the coronavirus effect on the supply chain system.

The virus has virtually placed China under a lockdown, straining the global supply chain system. "Deliveries for February will certainly be delayed," Gaurav Gupta, chief commercial officer at MG Motor India had said.

It remains to be seen if the ongoing AutoExpo — the extravaganza where automakers display their new products and technologies — will be able to reverse the trend. Showroom sales for two-wheelers and commercial vehicles also reported double-digit decline, indicating that the current slowdown is far from over.

A BUMPY RIDE

CATEGORY	Jan 2019	Jan 2020	% change
Passenger vehicles	280,091	262,714	-6.20
Commercial vehicles	87,591	75,289	-14.04
Three-wheelers	54,043	60,903	12.69
Two-wheelers	1,597,528	1,341,005	-16.06
Total	2,019,253	1,739,975	-13.83

Source: Siam

The poor sales growth in January is similar to the trend in December last year which came in two months after a marginal recovery in October and November. The automakers offered record discounts to lure customers during the festival season. "According to me, the slowdown is still continuing and the bump in October and November was due to festive buy," Guenter Butschek, managing director (MD) & chief executive officer (CEO) at Tata Motors, had recently told *Business Standard*.

December had also seen healthy discounts on BS-IV products, as companies are trying to dispose of their inventories fast as the transition to BS-VI norms kick in from April 1, 2020. Also, most manufacturers witnessed a decline in wholesale numbers during the month. This is because production was reduced to control the inventory of BS-IV vehicles, at dealerships before the transition into BS-VI.

Showroom sales for two-wheelers and commercial vehicles also reported double-digit decline, indicating that growth is still far away.

"Vehicle sales continued to be stressed due to rising cost of ownership and slower growth in GDP," said Rajen Wadhera, president, Siam.

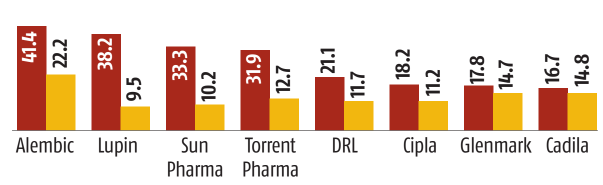
Wadhera said the recent push on infrastructure and rural economy by the government will increase sales, primarily two-wheelers and commercial vehicles.

Two-wheelers recorded a decline of 16.06 per cent in sales, with 13,41,005 units being sold in January this year, compared to 15,97,528 units in the corresponding month last year.

Wadhera cited poor consumption in rural areas as the reason for the fall in sales growth of two-wheelers.

Commercial and passenger vehicles recorded a fall of 14.98 per cent and 14.04 per cent, respectively, in January 2020, compared to last year.

IN A BITTER SPOT



Sources: Company, IIFL Research

Drug firms take a hit on compliance, R&D investments

SOHINI DAS
Mumbai, 10 February

The return on capital employed (RoCE) of Indian drugmakers has come down over the past five years because of higher investments in research and development (R&D) of new and complex generics, and quality compliance, the data shows.

The trend is unlikely to reverse in the near term, say experts. The RoCE, a key metric that measures how well a company is generating profits from its capital, of top Indian drugmakers has seen a decline between FY13-14 and FY18-19, shows the data analysed by India Infoline (IIFL).

For Lupin, for example, it has come down to 9.5 per cent, from 38.2 per cent, whereas Sun Pharma's RoCE has fallen to 10.2 per cent, from 33.3 per cent over the past five years. Torrent Pharma, which acquired the domestic formulations business of Unichem Pharma in 2017, saw its RoCE dip from 31.9 per cent in FY14 to 12.7 per cent in FY19.

IIFL analysts attributed the decline to increasing challenges in the US market — a key export market for Indian pharma firms. India's largest drugmaker Sun Pharma draws 31 per cent of its consolidated revenue from the US. "A majority of Indian firms now report low double-digit RoCE because of high investments. In the past, pharma firms attracted investors due to their superior RoCE metric. Conversely, lack of investor interest in main line Indian pharma names is driven by falling RoCE," IIFL said.

Earlier, Indian drugmakers used to focus on plain vanilla generic drugs that were going off patent in the US market. Those drugs required less expenditure on R&D. However, intense competition led to pricing pressure. Consequently, in the past few years, Indian drug majors turned to complex generics for higher profit margins.

India Ratings and Research said the demand-supply situation in the US generic drug market favours complex generics. The rating agency recently said it expected most large firms to aggressively invest in new product platforms to strengthen their market-readiness for the medium term. "This could constrain the cash flows and hamper the sector's deleveraging progress," it added.

Filings for complex generic drugs have risen to about 25 per cent of the overall product pipeline from nearly zero three years ago, CRISIL said.

On top of this, there is additional overhang of regulatory compliance related issues, which necessitates investments in ensuring quality compliance. In 2019, the US Food and Drug Administration issued 19 warning letters to Indian companies as against 11 issued in 2018.

Sameer Charania, director, CRISIL Ratings, said: "With intensifying regulatory scrutiny, sales growth from the US market will drop to 10-11 per cent during FY20-22, compared with growth of 16 per cent in FY19." A substantial delay in resolution of regulatory issues and/or heightened scrutiny could derail the US growth story, he said. That said remediation costs to resolve the regulatory observations are also likely to increase for big pharma. This is expected to shave off operating profitability by 100-150 basis points over the next two financial years from the current 19 per cent, CRISIL added.

Companies have thus, started focusing on cost optimisation and are also reviewing their R&D pipeline. Rating agency ICRA said the aggregate R&D spends of the top pharma companies have moderated from 9 per cent (of operating income) in FY17 to 8.8 per cent in FY18 and 7.8 per cent in FY19. For the first half of the current financial year, this has further moderated to 7.1 per cent.

Hero eyes 10% of global e-cycle mkt

SHALLY SETH MOHILE
Greater Noida/Mumbai, 10 February

Two years ago, on a leisurely Sunday afternoon lounging on his sofa at his Ludhiana residence, Pankaj M Munjal, chairman and managing director (CMD) at Hero Cycles, was swiping on his iPad. The image of an electric bicycle (e-cycle) launched in Spain caught his attention.

He got on to the phone with his chief executive and research and development head. The trio met later in the day to discuss making a similar cycle. This is how Hero started reinventing the wheel.

The genesis of the thought, says Munjal, was 'the fear of failure'. The market for manually pedalled bicycles, their core business, was shrinking. "You can't change the macro trends; you have to align with it," he told *Business Standard* on the sidelines of the AutoExpo, where his company showcased a range of models that will shape its future.

These include a Straphanger, Essentia Connect, and Easy Step range of electric bicycles. The Easy Step, with a foldable body and seven-speed gear, is looking to tap into the need of an urban consumer globally.

Sale of bicycles in India are to drop 10 per cent in 2019-20. Hero's share is 40 per cent, from 36 per cent a year before, but the volumes have been muted.

Sensing an opportunity in Europe, the world's largest market for e-cycles, Hero diversified into e-cycles in 2018 through the launch of a Lectro brand. Last month, it acquired a stake in German e-bike manufacturer HNF Group.

PUTTING PEDAL TO METAL

- In talks with a Dutch company for an alliance
- Double the turnover to ₹7,000 cr
- Draw half of the revenue from outside India

The aim is to be a full-range supplier of e-cycles in Europe, a market that has seen 20 per cent annual growth over recent years. And, where the culture of cycling to work is gaining traction and the market is evolving at a fast pace.

To strengthen its foothold in Europe, Hero is in talks with a Dutch company for an alliance. It will announce a deal later this month.

The company says it aims at 10 per cent of the global e-cycle market in 2021-22, doubling the turnover to ₹7,000 crore and drawing half the revenue from markets outside India.

The 70-year-old firm had earlier done a pivot through acquisition of brands in India and outside, in a bid to premiumise. It bought Firefox Bikes in 2015. If then rode into Europe through the acquisition of Avocet, its first buyout abroad. Followed by the buyout of Sri Lanka-based BSH Ventures.

By the end of the ongoing financial year (March 31), Hero envisages selling 25,000 units of the Lectro brand of e-cycles and 5-5.2 million of manually pedalled bicycles. It has allocated ₹250 crore to set up an 'e-Cycle valley' in Punjab, an entire ecosystem for manufacturing e-cycles. An additional ₹350 crore into the project will be invested through joint venture partners and ancillary units. The idea is that 70-80 per cent of the production would be exported, mostly to Europe. The project will go on stream in a year and will augment the overall capacity from the current 6 million units per annum to 10 million.

Flipkart ups fintech focus to take on Amazon, Paytm

From providing consumer credit, device insurance to seller financing, the category grew 40% in 2019

PEERZADA ABRAR
Bengaluru, 10 February

Walmart-owned e-commerce firm Flipkart has increased focus on the Indian fintech market and will take on rivals such as Amazon and Alibaba-backed Paytm. Flipkart's overall fintech category, which comprises consumer credit constructs, device insurance, and seller financing, grew 40 per cent in 2019.

As the company brings the next 200 million consumers online, it aims to significantly multiply the number of users with access to its fintech products and services. This includes tier-2 and tier-3 cities, where it is seeing a lot of traction.

"We are now able to provide credit to about 65 million customers out of the base of 200 million customers. About 40-45 per cent of the customers don't have access to credit outside of the system at all," said Smrithi Ravichandran, head of business for fintech and payments group at Flipkart. "As the 200 million Flipkart customer base becomes 300 million in the next three-four years, our (aim) is to significantly multiply this 65 million. Our ambition is to give credit to everybody."

The overall transaction value in the Indian fintech market is estimated to jump from approximately $66.1 billion in 2019 to $137.8 billion in 2023, growing at a CAGR (compound annual growth rate) of 20.18 per cent, according to a report by PricewaterhouseCoopers and industry body Assocham.

Emerging markets are leading the way, with both China and India at 87 per cent fintech adoption rate in 2019, significantly higher than the global average of 64 per cent, according to EY's Global FinTech Adoption Index 2019.

Ravichandran said the company has adopted a three-pronged strategy to tap the fintech market. This includes enabling frictionless payment at scale using data insights, distribution and technology, and enabling credit especially to tier-2 and tier-3 customers and helping them buy aspirational products of their choice. It is also using innovative insurance technologies to give customers a "hassle-free" buying experience.

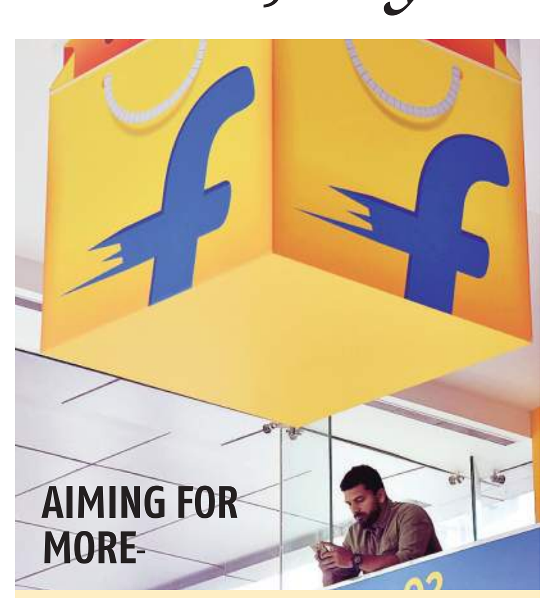
Flipkart ramped up its fintech offerings ahead of the festive season last year, to increase access to credit and affordability options for shoppers. Constructs like 'Flipkart Pay Later' and 'Cardless Credit' opened up access to credit for 55 million Indians ahead of the festive season.

Flipkart said these offerings are in-house innovations, introduced to make the online shopping experience seamless and affordable. 'Flipkart Pay Later' and 'Cardless Credit' grew more than 30 per cent in 2019.

"Driving credit access and penetration is very critical and core focus (for Flipkart) and we would continue to heavily invest in the next couple of years," said Ranjith Boyanapalli, head of fintech and payments group at Flipkart. "The reason we are extremely confident and want to invest is that we have the right distribution and technology capabilities and the right insights to make this happen."

Flipkart said its seller lending programme, 'Growth Capital' grew 70 per cent in 2019, which has helped fuel the business aspirations of thousands of MSMEs (micro, small and medium enterprises) and sellers across the country.

The company also forayed into the insurance segment for the first time in 2018 with the 'Complete Mobile Protection' programme and launched 'Complete Appliance Protection' in 2019. The firm said these programmes have seen a phenomenal response from customers. During TBBD (The Big Billion Days) sale in 2018 and 2019, on average 1 in 3 appliances (mobiles, TV, and large appliances) sold on Flipkart was with 'complete device protection.'



AIMING FOR MORE

- Overall transaction value in the Indian fintech market to reach $137.8 billion in 2023, from $66.1 billion
- Flipkart's overall fintech category grew 40 per cent in 2019
- As the company brings the next 200 million consumers online, it aims to significantly multiply the number of its fintech users
- In tier-2 and tier-3 cities, it is seeing a lot of traction