PELICAN PMS
THE MARKET'S WAY

www.pelicanpms.com

Issue 54, Oct 2022

Cognizance

Monthly Market Outlook and Commentary

Asset Class	Benchmark	Latest Value	MTD (%)	YTD (%)	52 week high	52 week low
			Equity			
India	Nifty 50	18012	5.4%	3.8%	18604	15183
US	S&P 500	3872	8.0%	-18.8%	4793	3579
Europe	Euro Stoxx 50	3617	10.4%	-15.9%	4388	3239
Japan	Nikkei 225	27857	7.4%	-3.2%	30669	24717
China	Shanghai comp	2893	-4.3%	-20.5%	3715	2863
			Bond			
India	10 yr G-Sec	7.45	-0.3%	15.4%	7.54	6.13
US	10 yr treasury	4.08	7.2%	170.0%	4.23	1.18
			Others			
Bullion	Spot Gold USD/ oz	1632	-1.7%	-10.6%	2050	1621
Metals	LME metal index	3487	-1.5%	-23.5%	5505	3440
Currency	USD/INR	82.74	-1.5%	-10.0%	83.28	72.94
Commodity	WTI Crude USD/ bbl	86.36	8.4%	13.9%	124.76	61.92

Market Commentary

Nifty posted a good recovery from its September close moving higher by 1000 points in October to close above 18000 once again. Expectation of good results season, moderation of inflation and no major negative news induced some optimism in the market. Global markets excluding China also remained bullish during the month. Central banks are determined to control inflationary pressures and rate hike continues to overshadow the investor sentiment. We expect rerating of stocks to take place in a higher interest rate environment.

Our model is based on the PE levels. Nifty PE levels are holding around 21x levels, and we suggest exposure of 50% for fresh funds.

Update on portfolio companies

1. **Reliance Industries:** Oil to chemicals segment reported revenues at Rs.1596.71 bn (32.5% YoY) while EBITDA declined by 5.9%. Margin impact caused by levy of export duty on transportation fuels and subdued downstream demand caused the decline at the EBIDTA levels. Crude throughput came in lower than expected at 18.6mmt (18.7mmt in 1QFY22). Production meant for sale also declined to 16.2mmt (16.9 mmt 1QFY22) due to planned shutdown at SEZ refinery in September. Oil and gas segment to 3.85bn (134% YoY) and EBITDA improved to 3.17bn (196%). EBIDTA margins remained stable at 82.3%. Production also held at previous quarter levels of 43.6 BCFe. Jio revenues improved to Rs 285bn (+23% YoY) due to higher ARPU of Rs 177.2 (+23% YoY). Net subscriber addition improved by 7.7mn. The total customer base stood at 427.6mn at the end of Q2. Retail revenue grew 43% YoY to Rs649bn and EBIDTA was higher by 51% at Rs.44.04bn. Footfalls stood at 123% of pre-pandemic levels. All core segments outdid expectations (by 3-4%). Digital + New Commerce contribution remains healthy at 18% of core retail sales. Reliance Retail added 795 stores totaling 16,617 stores making it the first Indian retailer with over 50mn sqft of retail space. RIL announced demerger of its financial services business into a separate entity, which would be renamed Jio Financial Services (JFS). The demerger will be done through a share swap arrangement. The shareholders of RIL would receive one share of JFS for every share held by them. Consolidated revenue was reported Rs.2300 bn (+37% Yoy) profits came in flat at Rs. 155bn (0.2% YoY).
2. **Ultratech cement:** Domestic sales volume grew by 10% (YoY) for the quarter. Capacity utilization held steady at 76%. Premium products contributed to 18.8% of trade sales volume in Q2 FY23. RMC business registered volume growth of 29% for the quarter on yoy basis. Green power mix increased to 19.5% with renewable power capacity of 318 MW. Consolidated revenue grew came in at Rs. 135bn higher by 16% (YoY). Operating margin dropped significantly to 14% mainly on account of higher energy costs (+58% yoy) and decline in realization. Net Debt increased to Rs 8,357 crs from Rs 5,561 crs in Jun-22 primarily on account of increase in working capital and growth capex. Ebdita declined by 30% compared to same period previous year at Rs.20bn and PAT was dragged lower at Rs.7.5bn -42% YoY).
3. **HDFC Bank:** HDFC Bank reported interest income Rs409bn (+9.8% QoQ, +22% YoY) for the second quarter FY23. Other income also witnessed significant growth of 20% QoQ and 4% YoY at Rs.82bn. Advances as of September 30, 2022, were at Rs 14,798 Bn, a growth of 23.4% YoY/ 6.1% QoQ. The deposit grew by 19.0% YoY/ 4.3% QoQ at Rs 16,734Bn. Pre-provision profit grew at a steady pace this quarter to reach Rs. 187bn (+13.5% QoQ, +10% YoY). Provisions declined this quarter by 20% compared to the same period previous year to Rs.37bn. Lower provisions augured well for the net profit which came in at Rs.111bn higher by 16.1% QoQ and 22% YoY.
4. **Larsen & Toubro:** L&T reported strong order book inflow of Rs.519bn in 2QFY23 (+23 QoQ, +24% YoY). 67% of the orders came in from domestic market. Order backlog stood at Rs.3.7tn providing adequate revenue visibility for the company. Net D/E increased marginally to 0.89x from 0.82x compared to the previous quarter. The Hyderabad metro debt is expected to reduce to Rs 70-80bn, from Rs 130bn, in 2-3 years, led by Rs 30bn of soft loan assistance from the Telangana government and Rs 20-25bn from TOD land monetisation. This is expected to make the project self-sustainable. Consolidated

revenue came in at Rs.428bn higher by 23% compared to 2QFY22 while net profits were reported at Rs28bn higher by 25% compared to the same quarter the previous year.

5. **Maruti:** The Company sold a total of 517,395 vehicles during the second quarter of this year compared to 379,541 units during the same period the previous year. This is the highest ever quarterly sales and revenue for the company. Domestic sales were at 88%. MSIL's gross margins improved 273 bps YoY and 150 bps QoQ. Gross margins improved sequentially due to steep JPY depreciation, cost reduction, and softening of commodity costs Net sales came higher at Rs.285bn (+46% YoY). Operating profit was significantly higher compared to the previous year due to the low base at Rs. 20.46bn. PAT also grew 4x higher at Rs.20.6bn.
6 **Hero Motors:** Hero MotoCorp, the world's largest manufacturer of motorcycles and scooters, sold 454,582 units in October 2022 compared to 509957 units in the same month last year. VIDA, the emerging mobility brand of Hero MotoCorp, commenced reservations for its first electric vehicle, the VIDA V1, from October 10, 2022. The highly customizable, Built-to-Last VIDA V1, with convenient removable batteries and three-way charging options, is available in two variants – VIDA V1 Plus at Rs. 145,000/- and VIDA V1 Pro at Rs. 159,000/-.
7. **Bajaj Finance:** Bajaj Finance delivered all-around strong operating performance with AUM growth (+31% YoY) across segments. Asset quality continued to improve with gross npa at 1.5% as credit costs converged to management guidance. The management upped its customer acquisition guidance to 10-11mn in FY23, on the back of traction witnessed in H1FY23, and it has maintained the timelines for the launch of all new digital initiatives. BAF has gradually shifted the narrative from offline to "app-based" to an omnichannel strategy to drive its AUM CAGR of 25%. Net interest income grew by 29% YoY while pre-provisioning profit grew by 35.8%. PAT grew to Rs.45.8bn (+87% YoY, +7.1 QoQ).
8. **Asian paints:** Asian Paints' top line grew 19% YoY to Rs. 84.57bn. Decorative business was higher in volume by 10% and 20% in value compared to the same period last year. Margins were impacted by raw material inflation. Management has been gradually passing on the cost pressures to customers with a lag since Q1FY22. Future price hikes are likely to be measured as demand elasticity may get tested. Asian Paints is embarking on a significant investment phase Rs67.5bn over the next three years which will include capacity enhancement, backward integration, and acquisitions. This will auguer well for the company in the long run. Profit after tax came in at Rs8Bn higher by 32% Yoy and lower by 22% QoQ.

S.NO	COMPANY	TOTAL INCOME			PAT		
in Rs Bn		2QFY23	2QFY22	Chg (%)	2QFY23	2QFY22	Chg (%)
1	Reliance	2,301	1,676	37.26%	155	155	0.21%
2	Ultratech	139	120	15.61%	8	13	-42.06%
3	HDFC Bank	492	414	18.69%	112	91	22.40%
4	L &T	428	348	22.98%	28	22	24.78%
5	Maruti	299	206	45.70%	21	5	333.68%
6	Bajaj Finance	100	77	28.94%	28	15	87.78%
7	Asian paints	85	71	19.19%	8	6	32.89%

About
Pelican

Pelican Holdings Pvt Ltd. (PHPL) was established in the year 2003 as part of the multi-faceted Pelican Group which has interests across Capital markets and Corporate advisory. For nearly two decades the Pelican Group and its Partners have served as successful advisors to clients investing across various asset classes.

Pelican PMS Portfolio Management strategy is developed based on the strong understanding of trends and solid backing of temperament. The robust process aims to reduce the component of subjectivity and minimizes the conventional errors committed by investors, while at the same time offering significantly higher risk adjusted returns.

Reach Us:
Pelican Holdings Pvt Ltd
New No: 31, Old No: 15, T-2, 3rd Floor,
Rajamannar Street, T.Nagar,
Chennai – 600 017

SEBI Reg no:
INP000006891

reachus@pelicanpms.com

+91 94983 03030

+91-44-48570806

@pmspelican

pelicanpms

pmspelican

Disclaimer:

*This report has been prepared by Pelican Holdings Pvt Ltd as a note for internal circulation of the clients of Pelican PMS only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by **PHPL** to be reliable. **PHPL** or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views or hold out to update the same. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of **PHPL** shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this report. **PHPL** its employees, directors, affiliates may or may not have holdings or their direction of trade maybe in line with or against the recommendations mentioned in this report.*