

The Transcript

Mar – Jun 2023



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Sources: Investor Call Transcripts, Bloomberg, Management Interviews, Company Presentations

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If we didn't do a business very well and we impaired something, why are we calling it exceptional? It's our accountability as a management team. It should be in our results.

You've seen various impairments with things that didn't work. Those were all exceptional. And going forward there will not be an exception.

They will be part of our results.

Dr. Anish Shah



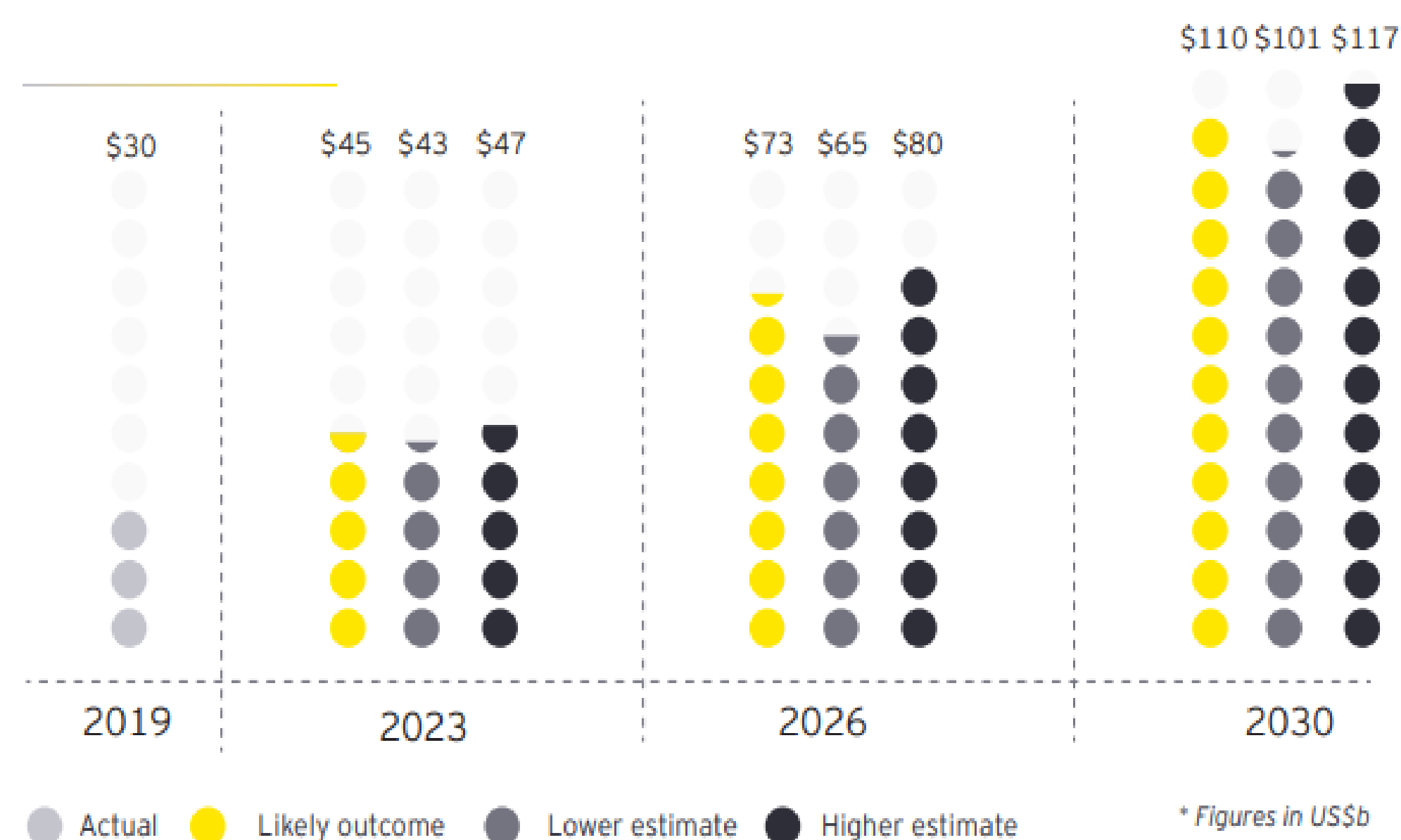
Mahindra

Offshoring: Rise Of GCCs

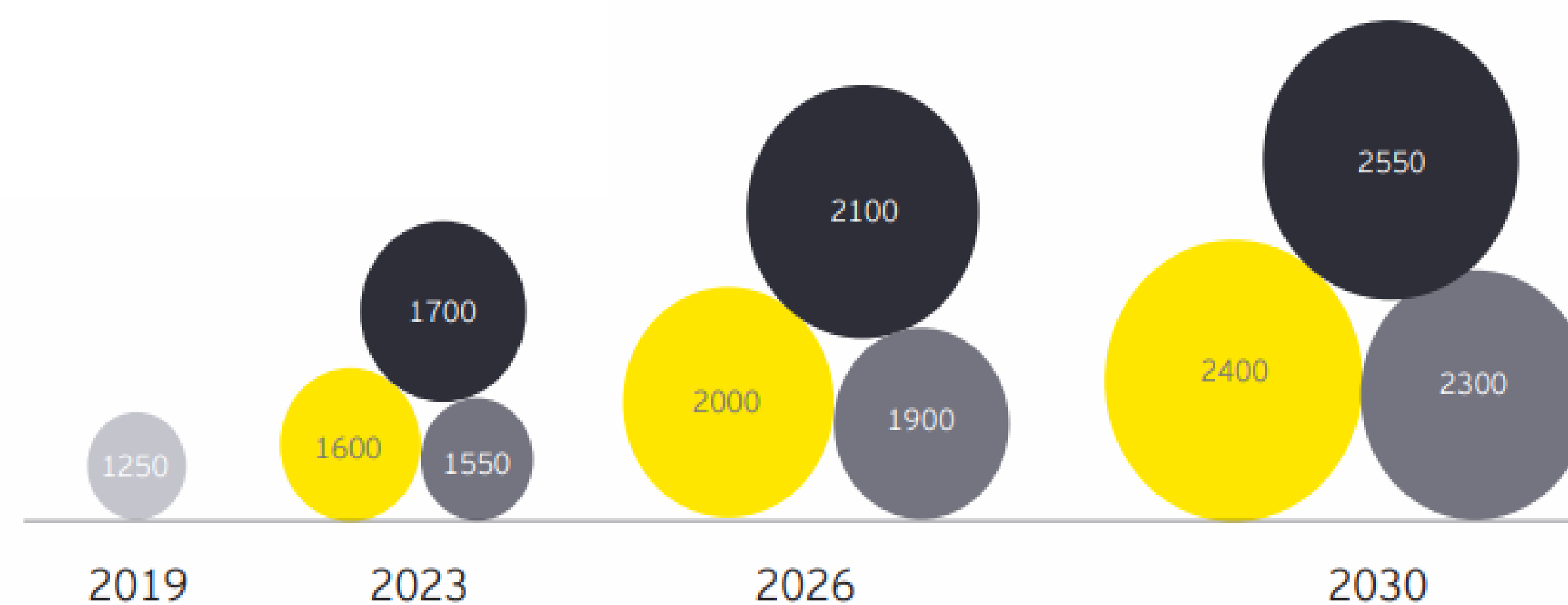
Global Capability Centre (GCC) refers to a specialized office set up by a company in a different country to take advantage of local talent and resources for specific business functions, often as part of an offshoring strategy. India's science, technology, engineering & mathematics (STEM) talent pool coupled with favorable cost economics (lower salaries) makes it an attractive destination for GCCs. As per Cushman & Wakefield India has 45% share in GCC centers – with Philippines, China, Poland, Ireland being other popular destinations.

This probably has positive implications for employment generation, office space leasing and services exports.

GCC Market Size



Total Number of GCCs In India



Source: Ernst & Young, Future of GCCs in India - a vision 2030 report

Offshoring: Rise Of GCCs

First, the growth of global captive centers, or GCCs, in India is currently driving the new demand. By leveraging the Indian skilled talent and the associated cost arbitrage, these global companies continue to set up and expand their offshoring centers in India. As per recent industry reports, 115 sub-centers are expected to be set up every year in this decade, employing 2.6 million additional head count. This will be a key driver for the new office space requirement of over 450 million square feet expected over the next 10 years.

Also, moving up the value chain, these GCCs are emerging as centers of excellence and innovation and are driving product development in multiple areas, such as AI, cloud, engineering and data analytics.



In the past quarter, we announced two major initiatives, our EPIC platform in the United States, and a collaborative engineering center in India. These investments will support even faster and better relationships with customers, universities, suppliers, and government partners to accelerate time-to-innovation and time-to-commercialization while increasing our combined R&D productivity.



Offshoring: Rise Of GCCs

While we have witnessed a huge drop in requirements from IT services customers, we saw some green shoots with global capability centers



IT services, it's slow, but I must tell you and report to you that our staffing business under digital consulting products, GCCs and financial services, is actually doing fairly well. And the high-margin, high-ticket niche mandates are coming from there.



IT hiring at the aggregate level has remained in a positive territory, low of course, at a much lower level than in the years right after COVID. This has been supported by the Global Capability Center, GCCs, which have ramped up hiring and are continuing to expand their presence in India.

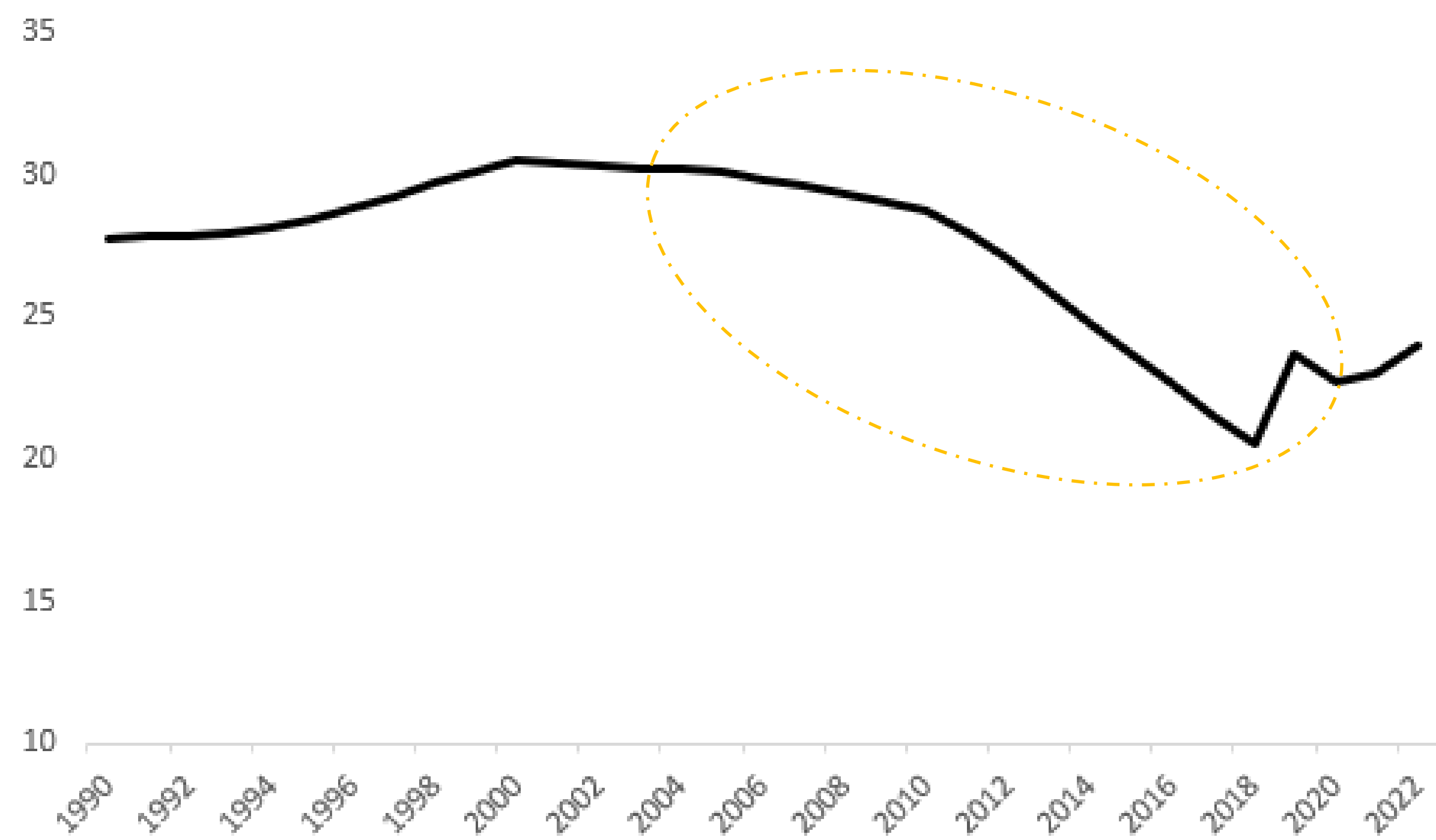
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Women In Workforce: **Need To Do Better**

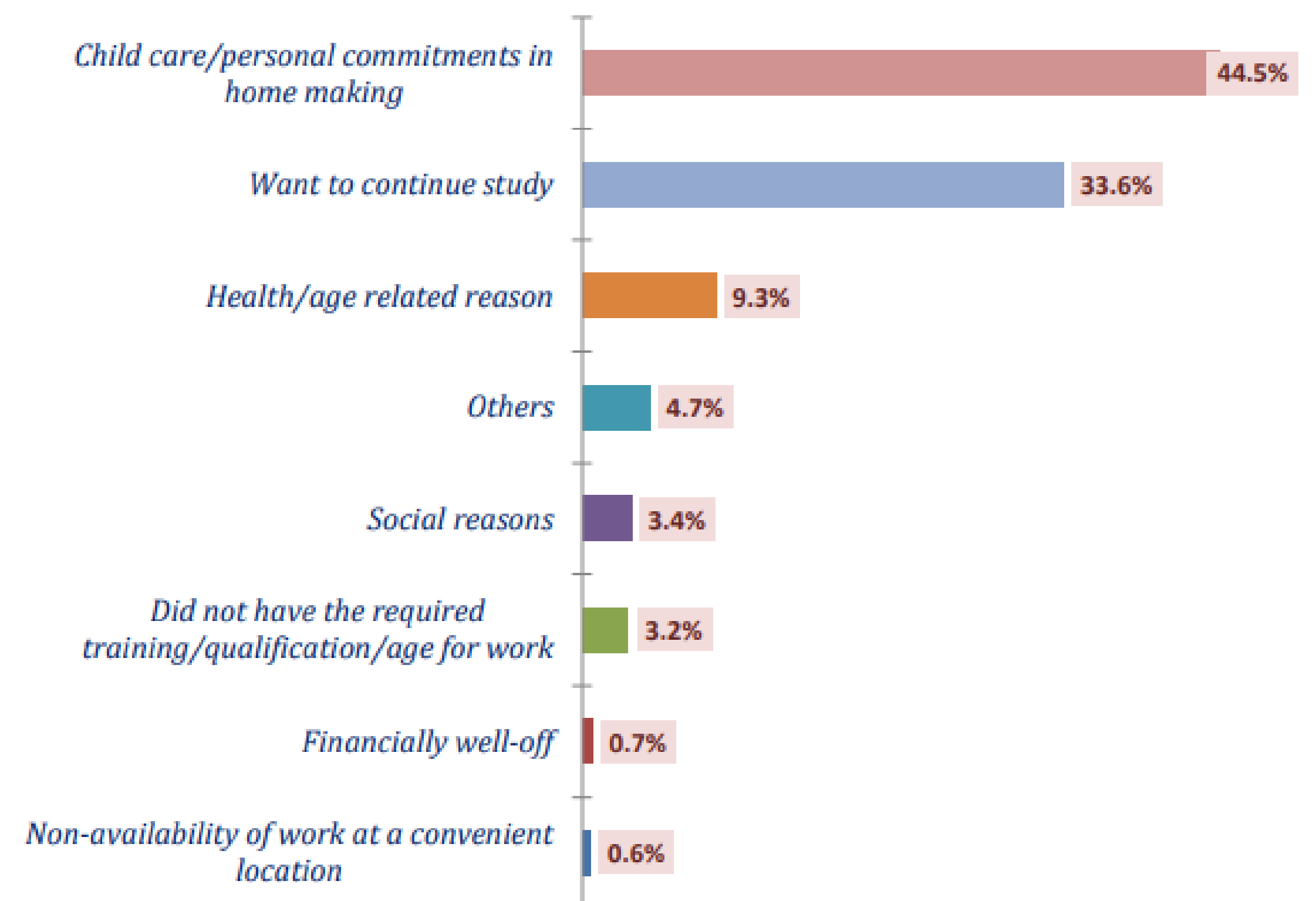
Women's participation in India's workforce had been, strangely, declining for a long time, but there's been a recent uptick. However, only a handful of countries globally have a participation rate lower than ours. Despite data quality considerations, it's evident that improvement is necessary. At lower income levels, women often leave the workforce as their incomes rise due to increased affordability. Higher women's participation could lead to significantly better socioeconomic outcomes. This will impact demand (both quantum and its shape) in sectors like dining out and two-wheeler sales, among others. It's positive to note that many major corporate entities are taking steps to bolster women's workforce participation by creating necessary infrastructure.

Labor Force Participation Rate For Women, India (% , Age 15+)



Source: World bank, ILO

Reasons For Dropping Out Of Workforce



Source: Ministry of labor and employment, India

Women In Workforce: **Need To Do Better**



Taj Wellington Mews

India's first custom-built luxury serviced residences, managed by an all-woman team.

Source: Taj Hotels



Source: Ashok Leyland

Women In Workforce: **Need To Do Better**

DSP

We now have 55 all-women or pink stores as we call it.



Our workforce continues to be very diverse with 154 nationalities represented and with women making up 35.8% of the base.



The company has implemented programs to place women in STEM roles and leadership positions. This commitment has yielded notable achievement including the distinction of having India's first underground women mining engineers. Furthermore, we have recently established a dedicated women only emergency response team for underground mines. I'm also proud that we have expanded our definition of diversity beyond gender. There are more than 38 members from the transgender community, who are part of our workforce with more to join in the near future.



Women In Workforce: **Need To Do Better**

DSP

Ladies and gentlemen, on the 4th of June, we proudly launched the Westin Hyderabad HITEC City, an all-women-run 168-room hotel

CHALET
HOTELS

Finally, the last pillar of our strategy is people. We have started our journey for hiring women at Apollo in the field. India salesforce has pioneered its journey on hiring diversity campus batch this year in June. We recently launched our wellness and well-being initiatives in our offices in India, in Singapore, U.K., and the U.S., focusing on mental, physical, and financial well-being of our employees.

apollo
TYRES

Women for Climate: In this program, our efforts include more women in the energy sector, we have programs on re-skilling in partnership with UNEP, which is the United Nations Environment Program, we're skilling for digital women saltpan farmers in Gujarat to become renewable energy technicians.

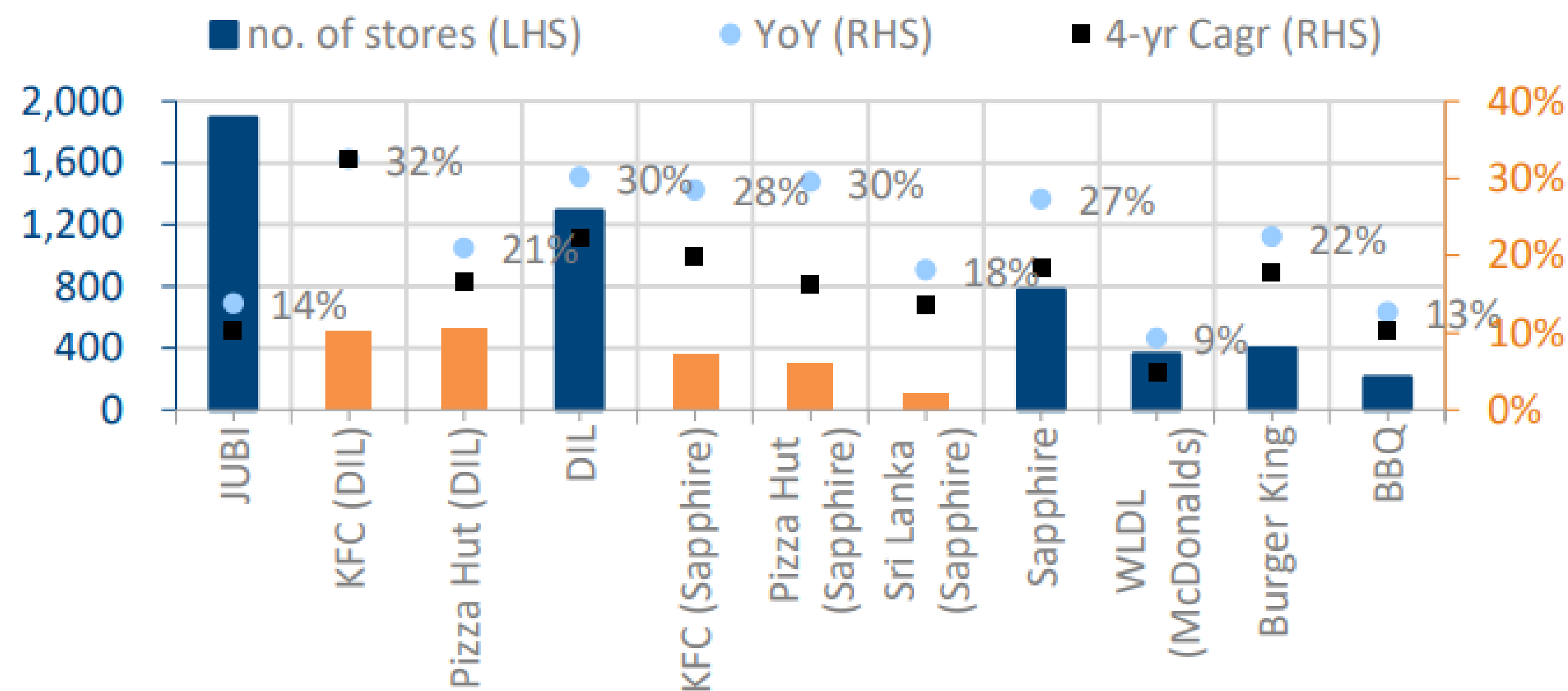
ReNew

QSR: Store Count Led Growth

Many Quick Service Restaurant (QSR) players are still dealing with high inflation due to prices of cheese and vegetables. Delivery mix continues to go up for most players. Growth has been driven by rise in store count. In comparison to other food categories, Pizza, which is mostly associated with deliveries, saw muted demand. Some players have fixed their per store economics and now its healthy for most players in the sector.

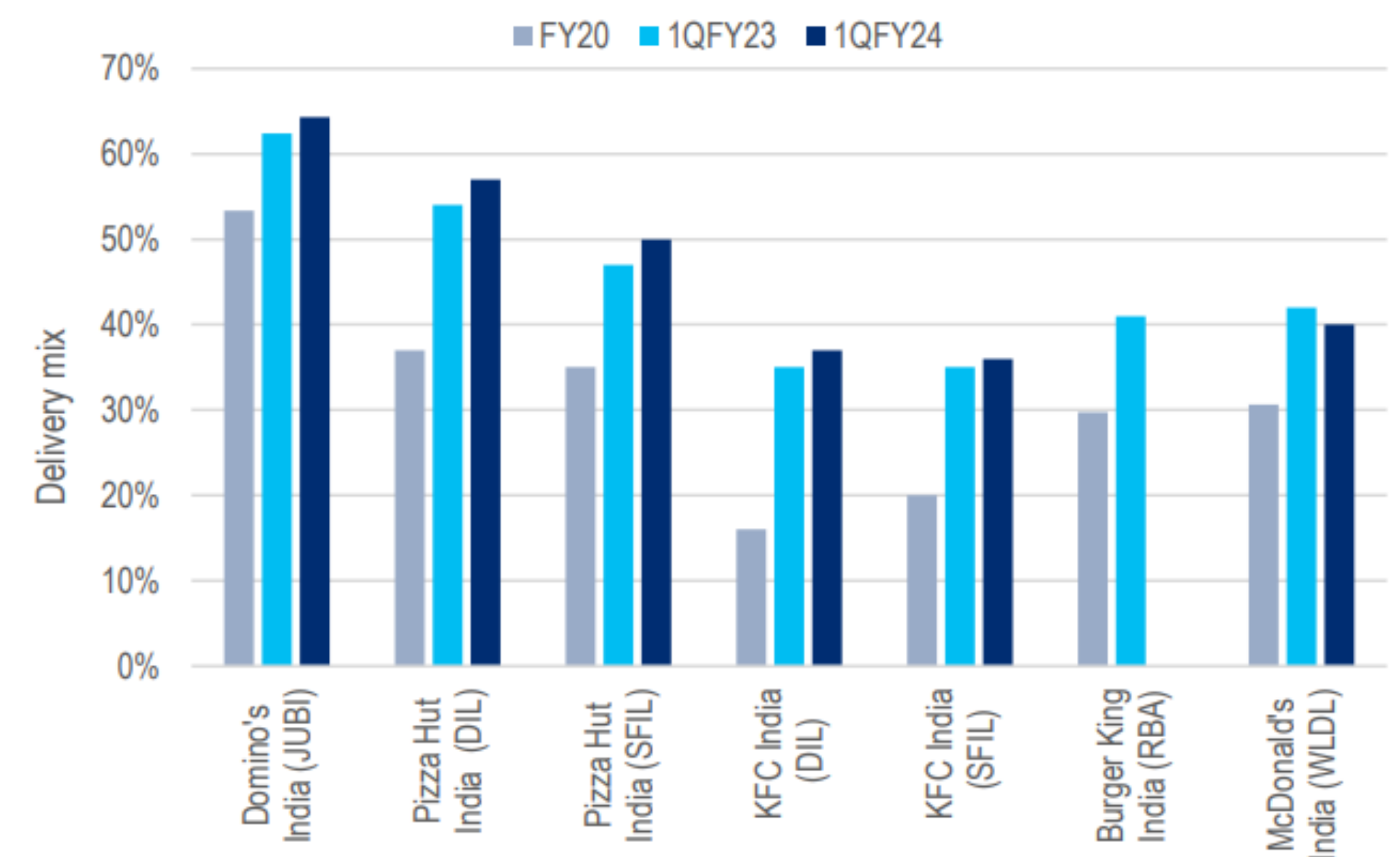
From a longer-term perspective, the focus lies on how feasible it is to open and operate large number of stores while ensuring consistent profitability. As a colleague succinctly put it, "The challenge with most retail models in India arises from the combination of real estate prices comparable to developed countries and the purchasing power of a developing nation."

Store Growth (Strong 4 Yr. CAGR)



Source: IIFL Research

Delivery Mix (Rising)



Source: Citi Research

QSR: Store Count Led Growth

On the cost side, lapping up a higher base, while the prices for key ingredients remain elevated, the sequential price increase has halted. Cheese prices remain high and the recent spike in vegetable prices does pose near terms risks.

We are not revising the network guidance of 200-225 stores and remain committed to expand our network as per our guidance.



Apart from a couple of years during COVID where inflation was really more than which we call out of whack. But otherwise, if you look at 5% to 7% inflation is a norm in India right from 1996. So it's very, very manageable. Food inflation is seasonal. vegetable inflation is seasonal, and we do a lot in the supply chain to make sure it doesn't impact us.

Just because the right size of store is not available in the marketplace, it does not mean that we are going to change what is the right thing to do. And in Mumbai, real estate has always been challenging, but we have 100 restaurants with 3,000 square foot in every square inch of the city. So we think it's the right way to go forward, and we are going to stay with this.



QSR: Store Count Led Growth

If you were to go back say 3 to 5 years from now, if you look at the Indian QSR industry, it was equivalent to only pizza. Whereas over the last 5 years, the other formats have rapidly expanded. KFC is much bigger compared to where we used to be earlier, McDonald's has expanded a lot, Burger King was very small at that point of time. Therefore, from a consumer perspective, there are a lot of additional choices which are available, what used to happen, say pre COVID and obviously, let us say, once that starts to happen, the demand also gets shifted to some extent. There is nothing fundamentally wrong with the pizza market as such, because the pizza market is still growing, the fact that it is the largest QSR segment in the country. So, the demand is getting balanced out with the other choices available with other brands and the fact that all the other brands are also now expanding very rapidly and aggressively.

DEVYANI
INTERNATIONAL LIMITED

We would recalibrate approach on Pizza Hut store opening, not in a more dramatic or a drastic manner. However, the number of stores we are likely to open this year on Pizza Hut would certainly be lower than the number of stores we opened in the previous financial year on the Pizza Hut. Having said that, our 3- to 4-year horizon remains still same. Our guidance remains the same on both the brands. We believe we could double the count over three to four years over three to four years, the count, which was there as of December 2021.

 **SapphireFoods**

Agrochemicals: Global Destocking

Agrochemical companies globally reported muted growth primarily driven by destocking of channel inventories. During Covid, due to supply chain disruptions the inventories were high at both the company as well as channel levels. This is unwinding.

Most global majors cut their revenue guidance. For Indian companies, growth was muted for both domestic and exports. Chinese exports have picked up putting pressure on prices of some intermediaries. Buyers often wait to buy in an environment where prices are falling.

Muted Performance For Global Majors

	Currency	Revenue			EBIT			EBIT margin		
		Jun-23	Jun-22	Yoy (%)	Jun-23	Jun-22	Yoy (%)	Jun-23	Jun-22	Yoy (%)
BASF	EUR mn	2,231	2,459	(9)	213	223	(4)	9.5	9.1	48 bps
Bayer	EUR mn	4,924	6,461	(24)	146	1,111	(87)	3.0	17.2	(1,423)bps
Corteva	US\$ mn	6,045	6,252	(3)	1,440	1,417	2	23.8	22.7	116 bps
FMC	US\$ mn	1,015	1,452	(30)	140	317	(56)	13.8	21.8	(802)bps
Sumitomo	Yen bn	103	153	(33)	(7)	22	NM	(6.8)	14.4	(2,117)bps
UPL	INR mn	89,630	108,210	(17)	6,370	15,580	(59)	7.1	14.4	(729)bps

Source: Kotak Institutional Research

We have spent an awful lot of time in understanding this whole demand pattern. I have been on the Board for 17 years and have never seen such a situation. I think it is not comparable with what we saw in Covid times and also during the financial crisis because this time it is really affecting all regions in a similar way all over the globe. That was usually not the case in the past because one of the regions did better than the others.

If you look at this destocking – we talk always about restocking, destocking – this is always the magic explanation. If you can't explain something, you talk about destocking and restocking. Actually, you can never really know what customers' stock levels are. The only thing you can do – and once in a while I do that when I visit a customer – is to see how many pallets are in the warehouse, is it empty or is it full? This gives you a kind of “seeing is believing” proof. But we have now been seeing destocking for many months. At a certain point, this has to come to an end. I think we are at that point in many of the industries. So that gives us a little bit the different spin in today's call than maybe the very depressed tone you have seen elsewhere. You know us for being conservative and cautious. So take the words we used now, in the explanation and also in the speech, at face value.

BASF SE



BASF
We create chemistry

Agrochemicals: Global Destocking

For glyphosate specifically, the more than 60% decline in sales year to date came from volume -- more from volume than price. This decline in volumes came mostly in the US where we saw general inventory destocking efforts from all our retail partners as well as a reduced width pressure due to the draw conditions in significant portion of the corn and soybean growing regions.

BAYER AG



In Crop Protection, farmers continue to invest in products to enhance and protect crop yields. However, customers are adjusting their purchasing patterns to reflect the macroeconomic environment. A combination of factors from interest rates to supply availability, to working capital management, is motivating buyers, including retailers and distributors to adjust the timing of their purchases to be closer to their intended use. We see these actions as a result of supply chain rebalancing and believe they could persist at least through the end of 2023.



Agrochemicals: Global Destocking

Global Crop Protection business has been facing a tough market environment over the last two quarters. While ag-chem demand at the farm gate level continues to be strong, the industry is facing unprecedented challenges due to significant price decline for most post-patent products combined with distribution channel destocking, which greatly impacted product sales in this past quarter.

Even though the current grower demand will absorb existing channel inventories in the next several months, this is a major pain point for manufacturers.



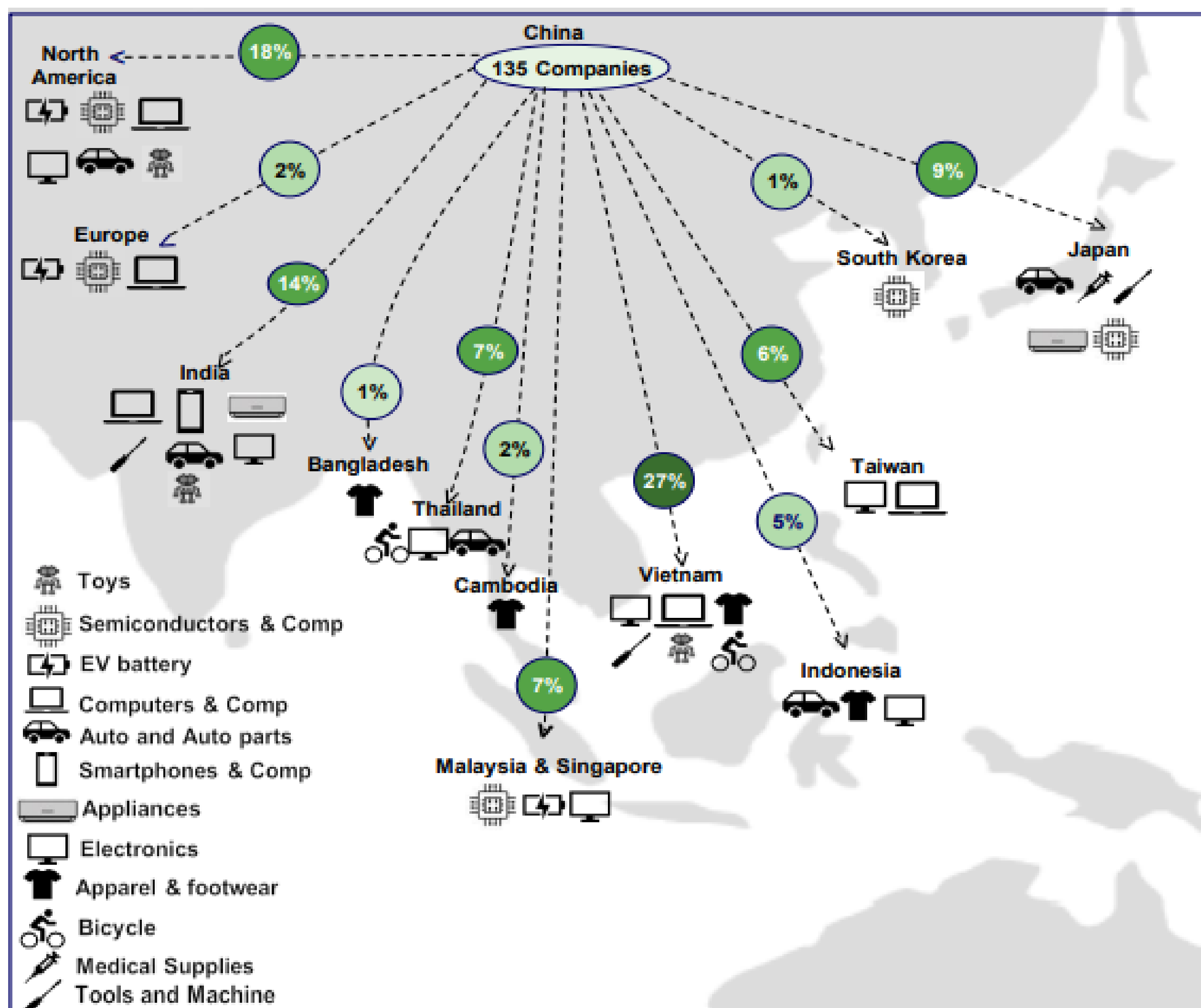
There is significant global inventory unwinding taking place, which is visible from the commentary of global leaders, and we have also experienced some of the same. The business also witnessed customers engaging in some inventory rationalization, along with rescheduling of some orders. However, we believe this trend is transitory and is expected to continue only for a few quarters.



China Plus One: Gradual Shifts

The disruption of supply chains amid the Covid pandemic led to a reorientation of manufacturing away from China towards alternative regions. This shift was mainly motivated by the need to reduce operational risks. Notable alterations in tariffs and investment regulations for Chinese companies took place in the US. While the US appeared to be diverting demand from China to other nations, these nations continued to depend on China for essential inputs. In numerous instances, the demand seems to be merely redistributed. However, perhaps this is the catalyst for the transformation. In India, Production-Linked Incentive (PLI) schemes have played a role in creating new opportunities within certain sectors.

Shift In Manufacturing (Intentions)



Source: Bernstein Research

The White House always wins

United States, manufactured goods, % of total imported from selected countries*



*Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam

Source: Kearney

Source: Economist

China Plus One: Gradual Shifts

The Western world is increasingly growing wary of sending that business (CDMO) to China because of concerns around intellectual property protection. So this whole China Plus One strategy is a strategy that we see playing into that business well.



We are also getting lots of inquiries and in the coming quarters and months and years, the export will go substantially. We have also started exports to U.S.A since February this year. And quarter-after-quarter, you will see our export has jumped to 17% of our sales, which was in earlier years it was only 10%.



We do source a large part globally from China and globally we are also looking at consciously diversification out of China from a sourcing strategy and because of the large base as well as knowledge and expertise that we have in India across various footwear types and almost across all our brands. Natural outcome of the diversification out of China is to enhance the India sourcing hub.



China Plus One: Gradual Shifts

DSP

Everybody's looking for China plus one strategy. I know we heard a lot about this across manufacturing and electronics and other categories, and I think it's equally the case for beauty.

NYKAA

Within our Flooring business, we are witnessing a push towards the China+ strategy in major global markets with a focus on complete feasibility of the supply chain.


WELSPUN

Fundamentally, India's momentum as an alternate specialty chemicals manufacturing base remains intact, and the China Plus One theme remains strong.


SRF

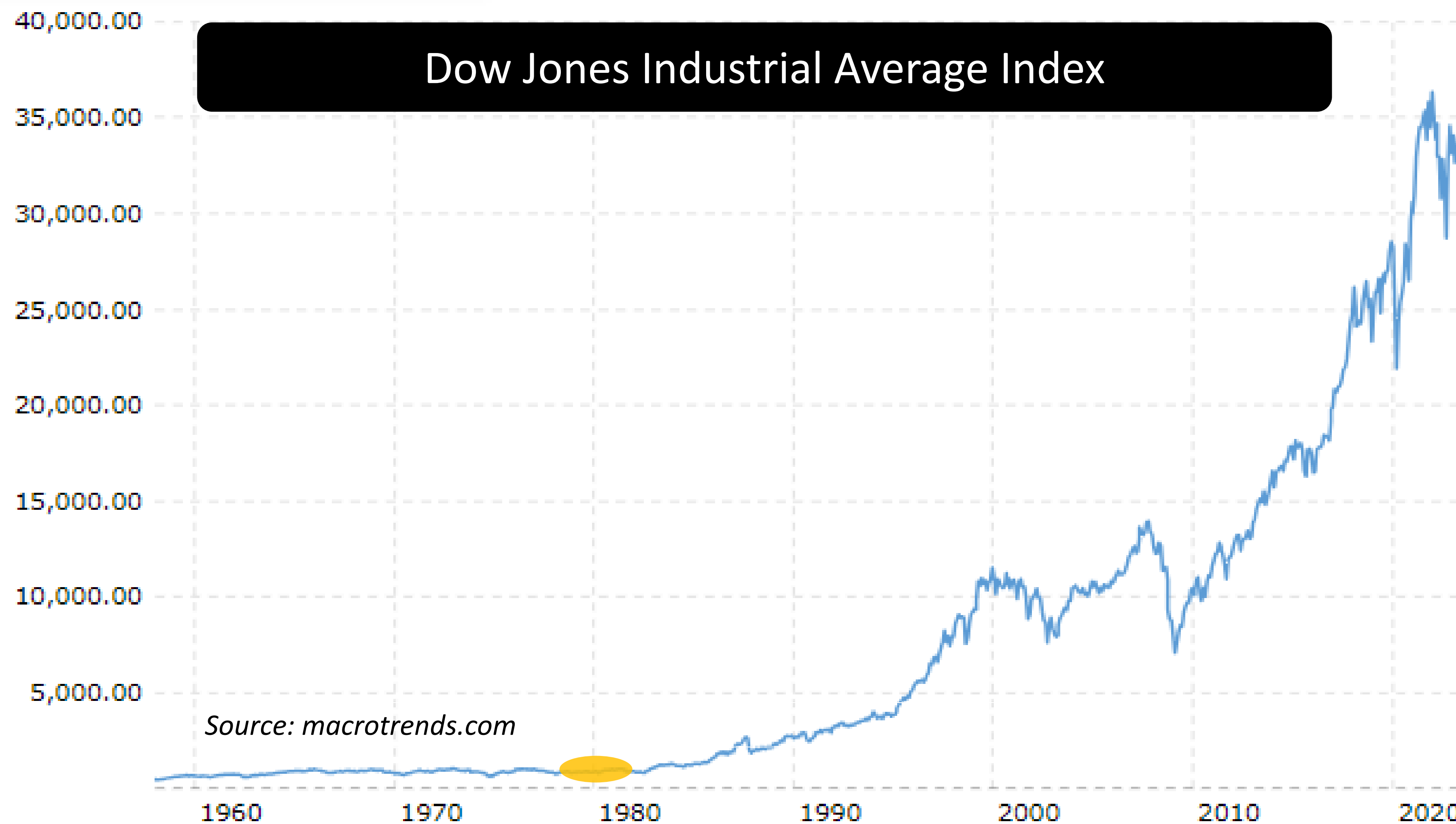
NOBODY KNOWS...



"To bring equities back to life now, secular inflation would have to be wrung out of the economy, and then accounting policies would have to be made more realistic and tax laws rewritten. For better or worse, then, the U.S. economy probably has to regard the death of equities as a near-permanent condition—reversible some day, but not soon."

August, 1979

Source: Bloomberg, ritholtz.com



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