CHANAKYA
NI POTHI

Ahmedabad 04-08-2016 Thursday

Nimesh Kampani of JM announces retirement

Ace deal maker Nimesh Kampani, also founder-chairman of the JM Financial Group, announced his retirement with effect from September. Kampani's son, Vishal, will be managing director of JM Financial with effect from October 1.

Nimeshbhai, as he is known in corporate circles here, will continue to be a non-executive chairman and director on the board of some JM group companies.

"It is important for all businesses to implement a proper succession plan. With this in mind, I have decided to retire when I turn 70. While I will continue to remain an integral part of the group, it will be in a purely non-executive position, as the chairman," he said on Tuesday.

Talking to this newspaper, Vishal Kampani said one of the important lessons he learnt from his father was to be humble. "I plan to build on the strength of my father and that is to remain truthful and honest with our business partners. The idea now is to take JM to the next level," he said.

Kampani had brokered the Ambani brothers' settlement in 2005 and is considered close to almost all top business people of his generation. He is on the board of Britannia, a Nusli Wadia company, and was on the board of Essar Shipping, owned by the Ruia brothers. Old-timers recall it was Kampani who helped London-based billionaire L N Mittal raise funds for his first venture. Deepak Parekh, chairman of Housing Development Finance Corporation, is a close friend. In an earlier interview with this newspaper, Kampani said his formula to win friends is to always remain neutral.

"It's nothing but the credibility and trust nurtured over decades." Some of his business acquaintances became friends only after he'd passed the test of keeping things confidential. "They have often tested me by asking me what's going on in other camps. My lips have always been sealed on such occasions," Kampani, a former cricketer, had said. Which is why, old-timers, Kampani remains the first port of call for people from vastly different and often opposing camps.

Nimesh Kampani passes baton to son In 2007, Kampani ended a seven-year relationship with Morgan Stanley, as the American bank wanted full control of the investment banking venture. Kampani set up JM Financial in 1973 with Rs 5,000 of capital and did not want to give up the control of the venture. Both parted amicably, with Kampani richer by Rs 1,900 crore. He used the cash to grow the business of JM Financial, by offering almost all financial products to customers.

Kampani's journey faced troubled times when, in 2009, the Andhra Pradesh police shocked Corporate India by issuing a lookout notice against him in a case involving Nagarjuna Finance, a non-banking finance company (NBFC), which had defaulted on repayment of deposits worth Rs 100 crore. Kampani had been on the board of Nagarjuna and the lookout notice was issued when he was travelling abroad. After the Andhra high court stayed the proceedings, he returned to India in October 2009, after 10 months, even as heads of corporate India came out in his support.

In the past few years, Kampani managed to grow JM Financial's market value, currently at Rs 5,300 crorey. He also got Vikram Pandit, former global chief executive of CitiBank, to join hands with him in an NBFC venture called JM Financial Credit Solutions, engaged in real estate financing

Diesel car owners and dealers in Delhi in for a shock

The diesel car business in the capital has taken a beating after the National Green Tribunal last month directed the transport authorities to de-register 10-year-old diesel vehicles to control pollution.

The decision came as Delhi's car dealers were beginning to take in their stride the Supreme Court ban on 2,000 cc diesel vehicles. The ban, imposed last December, had also affected sales of diesel cars below 2,000 cc in the National Capital Region.

"All of a sudden, buyers are unsure whether their cars can be used after 10 years. This brings down the resale value and affects sales of new diesel cars," said Jnaneswar Sen, senior vice-president, marketing and sales, Honda Cars.

He added there was no rise in enquiries for diesel cars in Delhi last month.

The NGT order was delivered on July 18. The Supreme Court ban is still in place and the court's order based on a final hearing have been reserved since July 4.

Correction : In the Notice of Board meeting of Shri Jagdamba Polymers ltd published on 3rd August 2016, the date of notice by mistake was printed as 20.05 2016 instead of correct date 03.08.2016 and hence the said notice is published again today .

Colgate growth story still strong : BUY

Growth Potential

India's oral care category per capita consumption and premiumization are among the lowest even in comparison to that in the other emerging markets. If

India manages to achieve China's current levels over the next decade, its oral care market size (currently ~INR 76bn) will quadruple from current levels, translating to potential 15% CAGR category growth for the next decade

● Number of Indians brushing twice a day even in urban areas is less than 20%. As awareness of hygiene levels increases, per capita consumption could rise significantly.

● In India, premium segment is less than 20% of sales, despite strong growth in recent years. Brazil, another BRIC peer, has witnessed a huge increase in premiumization in oral care in the past decade from 18% to 41%.

Given that realization in premium products is anywhere between 2x and 3.6x that of the basic Colgate Dental Cream, India's premiumization potential is high even if India does not track Brazil's scorching pace of premiumization over the next 10 years.

Key moats

The key moats for Colgate are

1) Distribution reach, particularly rural reach

Colgate has the **best distribution reach in the oral care category** with over 5m outlets in India. **In fact, it is the second best distributed FMCG brand in the country** after HUL's Lifebuoy.

Colgate is also much stronger than its peers in rural India. Colgate's expansion in recent years has only widened the gap between itself and its peers in rural India.

Leader in addition of households last year (with 40m households added as customers worldwide in CY15).

2) Benefits of massive category development efforts

Colgate's category development plans are unmatched not just in oral care, but across all FMCG segments in India. For many years now, Colgate has been at [redacted] driving
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discussed earlier, Colgate is also likely to be the only oral care brand available in many areas as well.

Similar to the way Colgate has used its global distribution advantage compared to peers, it has also been able to drive growth and market share gain through its category development programs.

While India is a significant part of these efforts, it is by no means the only part.

3) Advantage of singular focus in a category where they have unmatched global expertise.

Single category focus in oral care, a key area of strength both in India and globally, gives Colgate benefits of concentration of ad spend and cash flows which other players cannot match. This increases barriers to entry over other players.

Colgate has by **far the best A&P** muscle in the category with an A&P spend of over INR7bn and 17% as a percentage to sales, among the highest for any player in any single category in Indian FMCG. Oral care forms 97% of Colgate's total sales unlike peers for whom the category is much lower in salience. For Dabur, the segment is only ~10% of sales, while for HUL oral care is only ~6% of sales.

4) Brand strength

Colgate most dominant brand at more than 3x any other brand in terms of market share and importantly is consistently rated as the most trusted brand across all FMCG products, according to Brand Equity Survey. In fact it is the only brand in India to be consistently in the Top 3 for the last 15 years.

Market share loss in the past three quarters

Colgate India has reported market share decline for three quarters in a row from September 2015 onwards. The company has effectively lost market share of 220bp YoY over this period, of which the last reported period January-April 2016 itself reported a 160bp decline sequentially.

The loss in market share has largely been due to

a. The ongoing herbal wave led by Patanjali, a recent entrant into the category.

b. Wider availability of Patanjali's products, including its oral care products, in modern retail stores like Big Bazaar, D-Mart, Reliance Fresh and Star Bazaar among others, a process that started in October 2015.

Financials

Top-line growth

Given all its above-mentioned strengths and a slew of new launches in the herbal as well as the much larger non-herbal segment, we believe Colgate is well poised not only to arrest its recent market share decline, but also to resume market share gains over the medium to long term. With the rural segment slowing down over the past few quarters after two consecutive poor monsoons, Colgate has not been able to reap the benefits of its rural expansion. With likely above-normal monsoon this year, rural demand could potentially recover in 2HFY17. The government schemes like Direct Benefit Transfers to boost rural demand in the last budget as well as implementation of the One Rank

One Pension (OROP) scheme and 7th Pay Commission Scheme are also likely to boost demand.

Colgate is also much stronger than its peers in rural India, and once the rural market recovers, it will be difficult for peers to match the company's growth momentum.

Colgate's **expansion in recent years has only widened the gap** between itself and its peers in rural India, and once rural recovery resumes, the company's market share will also begin to gain momentum.

However, while we expect potential recovery in 2HFY17 due to the factors mentioned above, we are still not expecting any sharp recovery for the full year FY17, assuming the same pace of sales growth as has been the case in the preceding two years. It needs to be noted that FY16 gross sales growth was also ~10%, but

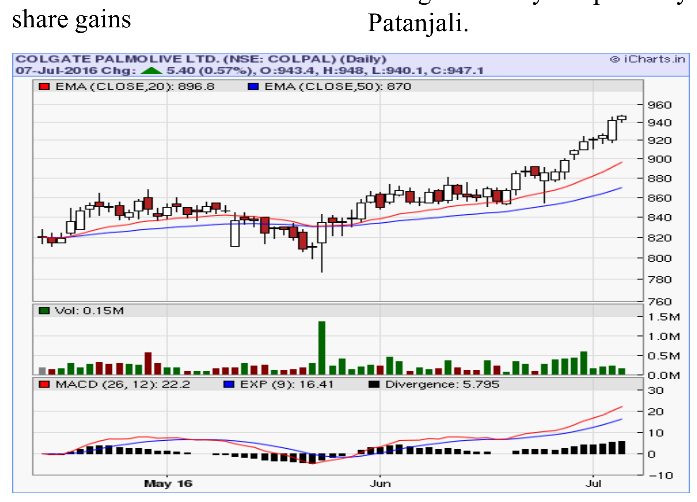
appears to be lower because of the one-off impact of excise benefits at its Baddi plant coming off during that year.

Margin and return ratios:

We believe that continued category premiumization, a reversal to mean A&P of 14-16% of sales in the medium term and strong operating leverage after volume recovery sets in could add ~300bp to Colgate's EBITDA margin over the next three years. Colgate's massive capex plan of around INR3b per year over FY14-17 coincided with the recent slowdown in FMCG demand, resulting in a loss of close to 150bp in other expenses to sales for the past two years. As demand recovers and Colgate's margins expand, there should be further improvement in its return ratios and dividend payout levels, which are better in comparison to its peers, but below the company's historically high levels.

Upgrade to Buy: After the 16% decline in the stock price from its peak, Colgate is now trading at 32x FY18E EPS, a discount to both its MNC peers like HUL, Nestle and PGHH as well as its own historical average 1-year forward multiples for the past five years.

On P/B, the stock is trading closer to a decadal low, after being taken by surprise by Patanjali.



Indusind Bank : leading mid-size pvt sector bank

NIMs inch up higher; thanks to corporate loan yields

❖ While the cost of funds declined 6bp QoQ to 5.67%, these were partly offset by a 3bp QoQ decline in the yield on funds at 9.64%. Reported NIMs inched up marginally by 3bp QoQ to 3.97%, within touching distance of the 4% milestone.

❖ Yield on corporate loans inched up 10bp QoQ for a second consecutive quarter led by reducing proportion of foreign currency loans (these have lower yields) and strong growth in high-yielding segments (e.g. MFI).

However, over the past six quarters, yield on corporate loans are down 75bp, beginning to reflect incremental pricing pressure from credit substitutes.

❖ Over a similar period of the past six quarters, yields in consumer loan segment fell by 120bp (28bp fall QoQ) due to a change in mix towards relatively lower yielding MHCV segment and continuing repayments in existing high-yielding asset classes. Overall yield on loans inched up 3bp QoQ and 73bp YoY.

Traction in SA continues; CASA ratio remains stable at 34%

❖ Traction in CASA deposits continued as it grew 7% QoQ and 30% YoY. Overall CASA ratio remained largely stable at 34%.

❖ Continued traction in SA deposits (+11% QoQ and +36% YoY) is driven by:

(a) customer acquisition (monthly run rate of 75k new SA accounts) and

(b) higher cross sell (current cross-sell ratio of 3x+).

❖ The management is confident of building further on the SA momentum, even in a declining interest rate scenario, as the wide product suites developed over the last few quarters and higher cross-sell would ensure customer stickiness.

Net stressed loans remain very low

❖ Both GNPA (0.91%) and NNPA (0.38%) marginally ticked higher.

❖ Slippages were stable sequentially across both the corporate and consumer segment at INR0.9b and INR1.6b respectively. In percentage terms, CFD slippage ratio stands at 2.1% of loans (annualized) v/s 2.4% during the preceding quarter.

Overall slippage ratio improved 20bp QoQ to 1.4% of loans.

❖ OSRL declined marginally to 49bp (v/s 53bp in 4QFY16).

❖ Provision coverage ratio stayed stable at 59% sequentially (v/s 62.6% in 4QFY15).

Continued traction in fee income

❖ Loan processing fees (+52% YoY, -6% QoQ) and trade / remittance fees (+12% QoQ, +95% YoY) drove incremental fee growth (1% QoQ, 23% YoY).

❖ 3rd party fees growth exhibited healthy YoY growth of 28%.

❖ General banking fees grew by 15% QoQ (+13% YoY).

Outlook on loan growth / loan mix

❖ Capital consumption at only 8bp during the quarter. This was largely a function of (a) upgrades; (b) quality of incremental lending (rating buckets); and (c) extent of smart collateralized lending.

❖ Continued traction in vehicle financing - increasingly more broad-based with participation from 2W, 3W and equipment financing portfolios

❖ Mix of consumer loans (adjusted for one-off corporate loan to the tune of INR13b during the quarter) is at 45% of loan book. IIB is keen to achieve a consumer-corporate mix of 50-50 by the end of this fiscal year.

❖ Lending in non-vehicle retail, new commercial vehicles and car loans generally happen at lower end of the yield curve

❖ MFI portfolio resides in the corporate book (run through a business correspondent) - outstanding MFI exposure at INR31b (8% sequential growth).

Targeting a direct MFI loan book of INR100b over 3 years.

❖ Monthly run rate of housing loans at INR2-2.5b. IIB originates only for HDFC IN.

❖ IIB currently has a 16% market share in AL and a 11-12% market share in TAMO CVs. 15% of the CV portfolio is used CVs (about 20% of disbursements are usually towards used CVs).

❖ Credit card portfolio: Bought an INR2b portfolio during FY12; portfolio stands at INR12b now. Looking to grow this book at 30-35% YoY (incentivizing customer spends). Revolving rate is at 48.2%

Valuation and view

❖ Strong core profitability (3%+ of average assets v/s private banks average of 2.5% and HDFC Bank of 2.7%), improving CASA ratio (best amongst mid-sized private banks), healthy return ratios (ROA of 1.9%+ and ROE of 16-17% and capitalization (CET1 ratio of ~14.9%) are key positives.

Third phase of growth cycle is likely to focus on building scale with 3Ds strategy of Dominate (among top 3 banks in home markets), Differentiate (extensive use of technology and cross sell) and Diversify (new products, payment solution etc.). Management's execution in first two planning phases has been impeccable and increases our comfort despite rich valuations

❖ With the expected improvement in economic growth we expect underlying growth in consumer finance division product to show strong revival with broadband growth in 2-wheelers, 3-wheelers and equipment loans in addition to the strong traction in CV loans, which contribute ~39% of the consumer finance division. Further, new product additions are also likely to drive growth. IIB is already witnessing healthy growth in LAP and credit cards. Corporate loan growth is likely to be opportunistic (based on spreads available). Overall, the model in loan growth of 27% CAGR over FY16-19 and we do not envisage downside risk to our loan growth estimates as IIB has levers (selling down less loans, less project loan exposure) available in the balance sheet.

Maintain Buy with a target price of INR 1,300