Ahmedabad 29-06-2021

CHANAKYA

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Govt dials investors ahead of LIC's IPO; embedded value expected by August

The government has reached out to investors to apprise them about Life Insurance Corporation of India's (LIC's) growth and prospects as it prepares for the country's largest initial public offering (IPO).

Preliminary presentations have been made to inform investors on how the organisation is being restructured ahead of the IPO, along with its financials, so that the IPO process can be hastened once its embedded value is derived.

"A detailed presentation has been made to investors, giving them details on how LIC is positioned beyond what is known. This includes how LIC is being restructured ahead of the IPO, and investors are keen to know that," said an official.

In the Finance Bill, 2021, the government had proposed a slew of changes to the LIC Act, 1956. The changes include introducing corporate governance provisions in line with the Securities and Exchange Board of India's norms and that the exchequer would hold at least 75 per cent in the insurer for five years after the IPO.

"Generally, the companies (planning listing on the exchanges) conduct such an exercise before pre-IPO placement, but pre-IPO placement is not being considered for LIC at the moment. The exercise is being conducted so that some time is saved as we prepare for the IPO," said another official.

The government is trying to understand what investors are looking forward to with respect to LIC's IPO, the official added.

"This will help in understanding what data and details investors need before taking an investment decision, in turn helping the government in preparing for the IPO, and cutting the launch timeline."

The details shared with the investors include the insurer's revenues, its growth story and prospects, mix of businesses, expenses for generating revenues, and the amount of guarantees in products and product margins, said the second official.

The advisors appointed by the Department of Investment and Public Asset Management (DIPAM) — Deloitte Touche Tohmatsu India and SBI Capital Markets — have reached out to investors on behalf of the government.

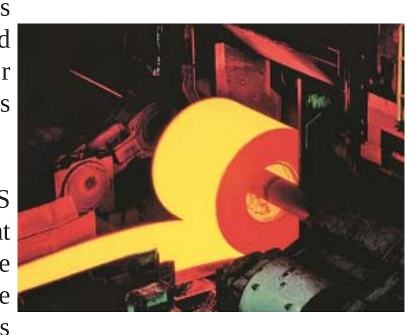
More consultation with investors will take place once the embedded value of LIC is derived. As the exercise to derive LIC's embedded value is ongoing, it recently appointed a data auditor, the second official said.

The embedded value is expected by August.

The IPO is being targeted for the last quarter of this fiscal year. This launch timeline has been agreed upon by all stakeholders, including DIPAM, LIC, and the advisors involved.

With massive investment plans, steel leads India Inc's capacity expansion

Reliance Industries is not the only company planning massive investments in a new business and other verticals. Several top companies, led by steel majors ArcelorMittal Nippon Steel India (AM/NS India), JSW Steel, Tata Steel and Hindalco, are planning to expand capacity in the next few quarters as demand from their customers rises.



AM/NS India, a joint venture between the world's leading steel maker ArcelorMittal and Japan's Nippon Steel, has plans of ramping up capacity to 30 million tonnes (mt) at an investment of Rs 85,000 crore. The current steelmaking capacity at Hazira in Gujarat is 9 mt; it will be ramped up to 14 mt in the next three years and later to 18 mt. The two phases of expansion are expected to cost Rs 35,000 crore. An ongoing capital expenditure (capex) of Rs 7,000 crore for debottlenecking is underway. In addition, AM/NS India has signed a memorandum of understanding for a new 12-mt integrated plant in Odisha, at an investment of Rs 50,000 crore.

"Though the average capacity utilisation of Corporate India is still low, there are few companies — mainly in ports and renewables — which have begun the groundwork to set up additional capacity. The ArcelorMittal plant, for instance, is currently producing steel at 100 per cent capacity," says an analyst with a foreign brokerage.

Among the new-gen companies, Ola Electric is set to lift off its electric scooter production after starting work on a brand new plant just four months ago. Rising sales and profits in the March quarter of 2020-21 (FY21) is giving confidence to companies to restart work on expansion plans.

The recovery process for Indian corporates started from the quarter ended December 2020 as demand from customers rose.

"Barring the impressive top-line and bottom-line numbers, a cardinal point about this (March 2021) quarter is that there has been a broad-based increase in the operating expenses of the companies on the back of a global rally in commodity prices and ramping up of production activities," says a report by rating firm, CARE Ratings.

Iron and steel, along with auto and auto ancillary, have been the best-performing industries, with net sales growth of almost 50 per cent in the March quarter of FY21.

As capacity utilisation of these industries went up, top companies are now revisiting their plans.

Aditya Birla Group's Hindalco Industries is planning to invest Rs 3,000 crore over the next two years in downstream projects to increase contribution of value-added products. Company officials said the investment in increasing flat-rolled product capacity at Hirakud itself will entail an investment of Rs 2,700 crore; the rest of the capex will be towards producing alumina specialty chemicals.

Another group company UltraTech Cement has already approved an investment of Rs 5,477 crore for raising capacity by 12.8 mt, which will be a combination of both brownfield and greenfield expansions.

Jindal-led JSW Steel plans to spend Rs 47,457 crore towards capex in the next three years for adding 5 million tonnes per annum (mtpa) steelmaking capacity at Vijayanagar in Karnataka, and building a mining infrastructure in Odisha. The new projects will cost the company Rs 25,115 crore, while the ongoing capex, including doubling of capacity at Dolvi in Maharashtra to 10 mtpa, will require Rs 22,342 crore.

Another group company JSW Energy is pursuing a growth strategy to expand from 4.6 gigawatt (Gw) to 10 Gw by 2024-25, and 20 Gw by 2029-30, with the entire capacity addition being via renewables. Of this, 2.5 Gw is currently under construction. It plans to sign a power purchase agreement in the next quarter.

Naveen Jindal-led Jindal Steel & Power plans to double capacity to 12 mt at Angul and Raigad over the next three years. The capex of about Rs 17,000-18,000 crore for the expansion will be done via internal accruals.

Tata Steel has planned a capex of Rs 11,000 crore for 2021-22, of which around 70 per cent has been allocated to the expansion of its India operations.

Adani Group has also planned a massive expansion plan in its ports and logistics business and targets to emerge as the world's largest private port company by 2030.

For the Indian information technology (IT) services sector, the biggest cost is employees. Hence, the capex in the past was all about expanding capacity, in terms of physical infrastructure and investments in technology (tech) upgrades.

India's largest IT services player, Tata Consultancy Services' (TCS') capex ratio to total revenue was 2 per cent in 2019-20 (FY20) and 1.9 per cent in FY21.

"Capex related to tech upgrades will accelerate. The focus will be on refreshing some of the IT hardware. The overall capex will be similar to FY20's," said V Ramakrishnan, chief financial officer (CFO), TCS, in a conference call after the March quarter results.

IT players to telco giants, a clutch of Indian firms gunning for 5G market

The growing global 5G equipment and solutions market offers a huge opportunity, and domestic information technology (IT) players, telco giants as well as smaller telecom gear-makers are moving in aggressively to grab a share of the pie.

Bharti Airtel has just announced a strategic alliance with TCS to build 5G networks based on open radio access network (O-RAN) technology to roll out products and solutions initially for India, and later the world. This will entail taking on Reliance Jio, which is readying trial runs of its 5G O-RAN solutions in several Indian cities.

IT companies Tech Mahindra, Saankhya Labs, Cyient, HCL Technologies and home-grown equipment-makers Sterlite and HFCL are also joining the bandwagon.

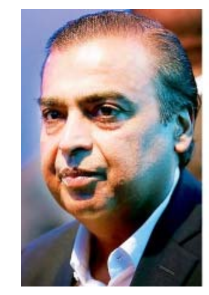
How will 5G O-RAN technology change things in India? Fifteen years ago, the basic building blocks of telecom networks were based on propri-etary technology controlled by a few global players such as Ericsson, Nokia, Alcatel, Lucent, and Motorola. Telcos had to buy the entire block from one player, which came bundled with software and hardware.

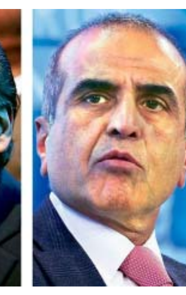
With the coming of 4G, operators wanted greater choice and more high-processing servers, which were available from other vendors. Gear-makers loosened their control over the core equipment, and vendors moved from proprietary to open software. Operators could buy software and hardware separately. There was now an array of new players to choose from — HP, Dell and CISCO for hardware, and Red Hat and IBM for software, apart from the incumbent gear-makers.

But the RAN market remained under the big boys' control. Analysts say this is because for telcos, the RAN accounted for 70-80 per cent of a netork's capital cost, so the big gear makers still had their market intact.

With the coming of 5G networks, two things changed. With consolidation, the number of global gear-makers shrank to just four — Ericsson, Nokia, Samsung and Huawei. US-China trade tensions and restrictions on the entry of Chinese 5G gear in many countries — including India — created a near-duopoly, consisting of Eriksson and Nokia. (Samsung, which has a very limited global play, is a new entrant).

Second, with the large investments that telcos,





especially in India, have to make on setting up a 5G network, there was increased pressure to reduce capital costs. And that can happen only if there are more vendors and competition.

After all, tariffs have fallen dramatically since Reliance Jio entered the game, with no hikes for nearly two years. Then there is the steep base price for 5G spectrum, among the highest in the world (accounting for over 50 per cent of network cost in India).

The solution is O-RAN. The new standard and specifications were written by the global O-RAN Alliance, having over 150 top global telcos as members. The new standard is based on open software, where various blocks in the network have been disaggregated so that telcos can buy them separately from different vendors. They can also buy software and hardware from different vendors, but need a system integrator to put the various blocks together.

This has huge advantages for operators. Global industry estimates indicate that the savings in capital costs due to competition could be over 40 per cent. Besides, it is easier for telcos to add new services, increase efficiency, and offer faster technology updates.

There are downsides, too. Incumbent operators say lower capital costs will be neutralised by high operating costs, because they now have to spend on system integration. Also, O-RAN is still not proven on 5G — the jury is out on the first standalone O-RAN network by Japanese telco Rakuten. And open source means there could be security risks as well.

O-RAN has three building blocks — the radio unit which receives and transmits the frequency signals, amplifies them and digitises them, and the two base band units (the central unit and the distributed unit), where the data is processed and sent to the network. The central unit, located near the radio unit, can also be hosted on the cloud — either at third-party sites or by setting up one's own private cloud. Reliance Jio is tying up with Google to build 5G on the cloud.

Many Indian firms are now looking at designing and manufacturing the O-RAN radio — and 5G will require nearly three times more towers. Sterlite is designing a radio which VVDN will manufacture, HFCL will do both, Reliance Jio will outsource manufacturing, and TCS has built a state-of-the-art O-RAN as well as the 5G core. Radio constitutes a substantial part of a RAN cost. Reliance Jio has already designed the core and so has the government-owned Centre for Development of Telematics, which may look for alliances. Mumbai-based PertSol is ready with a solution, too.

There is also scope to play a key role in system integration. TCS has announced it will work with Bharti Airtel in becoming a system integrator, while Tech Mahindra is a key system integrator for Rakuten. Manish Vyas, president (communications, network, media and entertainment) at Tech Mahindra, said recently the company was open to partnering with Jio for the global market for 5G solutions, as it has a footprint with every telecom operator in the world, except in China.Says a top executive of a leading telecom operator: "All these products will be on trial on our networks. Globally, there is a consensus among telcos that if the product and solution works in a complex network like India, it will work anywhere. With this advantage and our leverage in IT software and price competitiveness, we have an edge over others."

Thyrocare deal: PharmEasy founders out to build Amazon of health care

API Holdings, the parent company of online pharmacy PharmEasy, announced last week that it would pick up a 66.1 per cent stake in diagnostics firm Thyrocare for Rs 4,546 crore. It is the first unicorn to acquire a listed company.

One of the biggest consolidations in the domestic health care space, the deal was struck in record time at the Mumbai residence of A Velumani, founder of Thyrocare.

The deal is also a milestone for five friends from the Mumbai suburb of Ghatkopar, who called themselves the Ghatkopar Gujju gang, and set up PharmEasy in 2015.

Siddharth Shah, Dhaval Shah, Dharmil Sheth, Harsh Parekh, and Hardik Dedhia are now a step closer to their dream of building India's 'Amazon' in the healthcare delivery platform.

Of the three healthcare baskets that PharmEasy is targeting, it has already created a significant presence in consultation and treatment. With the acquisition of Thyrocare, it will now build the third basket — diagnostics.

Experts feel that with Thyrocare, PharmEasy is not only acquiring a brand and the infrastructure for diagnostics, but also a profitable business. Thyrocare's revenue grew 14 per cent year-on year to Rs 494.6 crore in FY21, with a net profit of Rs 113 crore and Ebitda of 37 per cent.

The acquisition of a profitable business is good news for PharmEasy as it looks at an IPO. Reportedly, the company intends to raise Rs 3,000-3,500 crore via listing in public markets in the next 12-18 months.

For PharmEasy's founders, it all started in 2012 when Siddharth Shah incorporated a company called Dial Health as part of a project during his IIM Ahmedabad days.

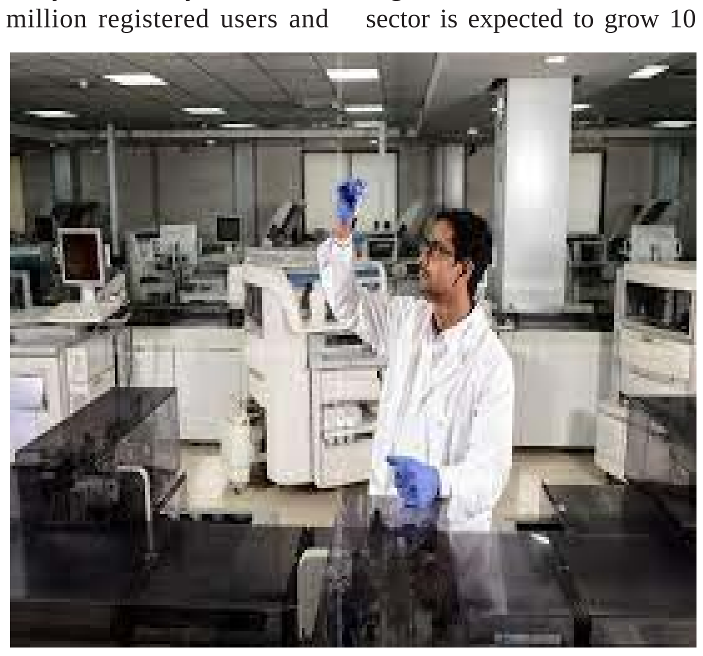
While Dhaval is a doctor by profession, Dharmil, and Hardik are engineers by training, and Harsh is an MBA graduate.

It so happened that Dial Health failed miserably. "The only people who believed in us at that time were our parents," said Siddharth Shah during an investor call.

However, the experience enabled the five friends to understand that pharma was a highly fragmented market and that retailers did not have the ability to deliver medicines in a short span of time.

"The only way to make the front end work was to consolidate the backend," said Siddharth Shah. So they went ahead and consolidated the digital and retail business and PharmEasy was born in 2015.

Possibly the largest digital outpatient healthcare ecosystem in the country today, PharmEasy has over 12 million registered users and



over 17 million active monthly users. It also has a B2B platform called Retailio which delivers medicines to 90,000 retailers in India spread across 140 cities.

"We are now the proud Students of Thyrocare Technologies (not acquirers/ buyers) and are taking the 1st step towards learning to make affordable, reliable and quality testing across the country a reality !!," wrote Dhaval Shah on LinkedIn after the deal was announced.

PharmEasy also plans to invest heavily in technology to give customers a superlative experience. In the works are a recommendation engine to ensure that patients do not do unnecessary tests, a QR-code based verification system to provide end-to-end control of samples, and end-to-end visibility from the time that a customer books a test until the process ends, and so on. The entire process could take 18-24 months, according to company sources.

"Today from a fragmented experience in the OPD value chain, tomorrow you will have an integrated experience, which will be digital-first," asserts Siddharth Shah.

Consolidation

From a gross merchandise value of $1.4 billion last year, the digital healthcare services sector is expected to grow 10 times in the next 4-5 years. And major players such as Tatas, Reliance and Amazon are moving in to cash in on the opportunity.

Last week, Apollo created the country's largest omnichannel digital health platform by merging its online and offline pharmacy businesses (excluding hospital pharmacies) and telemedicine verticals into a single entity called Apollo HealthCo.