**1-Aug-2024**

Dear Investors,

Greetings!! Our performance as of last month is as follows (Exhibit 1).

**Exhibit 1: TWRR Performance (after fees and expenses) as of 31-Jul-2024**

| Investment Approach (Benchmark) | Inception Date | AUM (INR cr) | 1M | 3M | 6M | 1Y | Since Inception (Annualized)* |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **Flexicap** | **11-Apr-23** | **86** | **5.2 %** | **14.0 %** | **21.4 %** | **34.1 %** | **39.1 %** |
| (S&P BSE 500 TRI) | | | 4.4 % | 12.7 % | 19.6 % | 38.9 % | 43.8 % |
| (Nifty 50 TRI) | | | 4.0 % | 11.1 % | 15.7 % | 27.8 % | 32.2 % |
| | | | | | | | |
| **Small MidCap** | **11-Dec-23** | **135** | **24.4 %** | **34.2 %** | **47.6 %** | **NA** | **57.4 %** |
| (S&P BSE 500 TRI) | | | 4.4 % | 12.7 % | 19.6 % | NA | 26.6 % |
| (Nifty 50 TRI) | | | 4.0 % | 11.1 % | 15.7 % | NA | 19.9 % |
| | | | | | | | |
| **Other AUM** | | **152** | | | | | |
| | | | | | | | |
| **Total AUM** | | **373** | | | | | |

**Returns for Flexicap are annualized as it has completed one full year. However, returns for Small Midcap are not annualized as it is yet to complete one full year.*

**Proceed with Caution!!**

- As we write this monthly newsletter, NIFTY has already touched 25,000 and SENSEX has touched 80,000. There has been a noticeable increase in valuations, especially for small caps.
- Given the current market conditions, we have been trimming some of our fully valued holdings and rotating the capital into stocks where we are more comfortable with valuations and expect a better risk-reward.
- We continue to remain constructive from a 2-3 years' perspective as we feel that the enablers for economy to do well remain firmly in place.

**Union Budget 2024-25:**

- Post budget, there was a lot of negative media chatter around increase in long-term and short-term capital gain tax on equities, real estate, gold etc.
- Of course, we feel terrible to see tax go up on equities, but we are of the opinion that most fellow citizens are realizing that post-tax return for equities will be superior to that of post-tax return on real estate or other debt products. Hence, the structural trend of savings to rotate from physical assets to financial assets will continue. Indian savings have been a formidable force and that has helped the market withstand the relentless FII selling that we witnessed in the last few years.
- For us, the biggest positive in the Budget was Government's laser sharp focus on fiscal deficit. The fiscal deficit target was lowered from 5.1% to 4.9% of GDP (Exhibit 2). This should help support a stable and healthy macro economy, particularly INR, FX reserves and help in reduction in borrowing costs in the economy. These are areas that Central Government can



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only control and no amount of high corporate profitability can help in case the economy goes into a tailspin due to macro instability.

- Some reduction in taxes for the middle class was also announced. This should incrementally help boost consumption.
- Focus on Capital Expenditure was maintained with railways, roads and defence being the key sectors (Exhibit 3).
- Overall, we feel it was a positive budget that would boost investment and consumption.

**Exhibit 2: Long term trends of Govt's fiscal deficit**

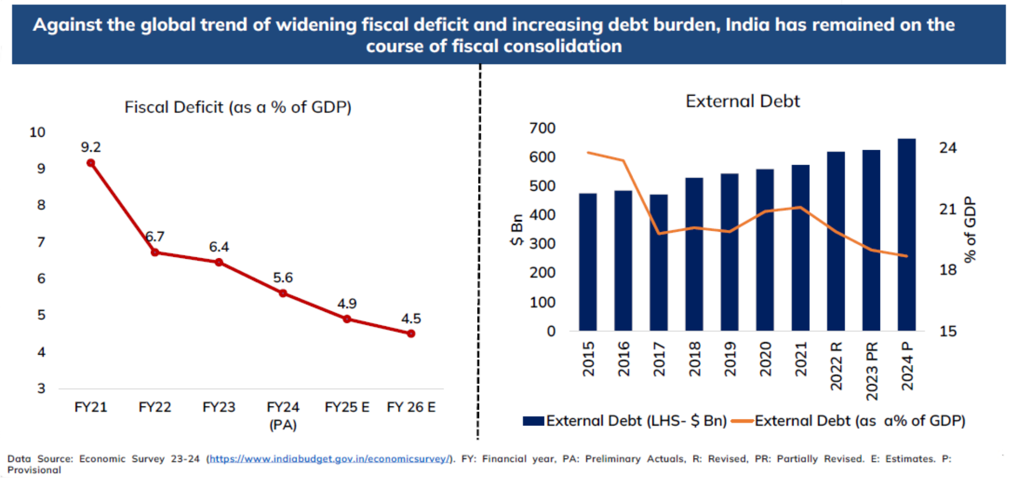
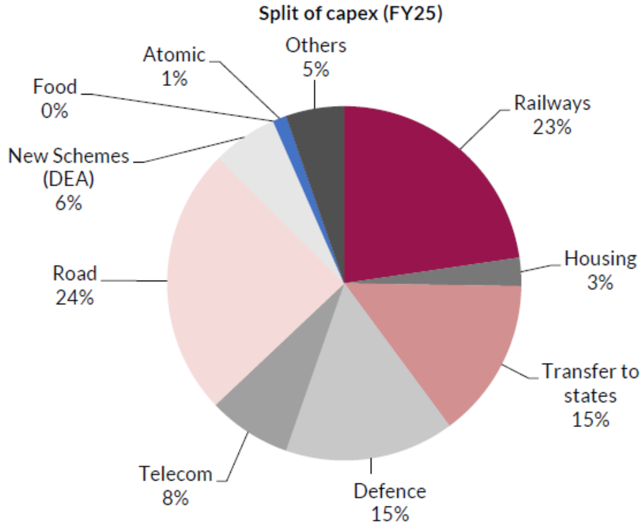



**Exhibit 3: FY25BE Capex focused on road, railways and defence**



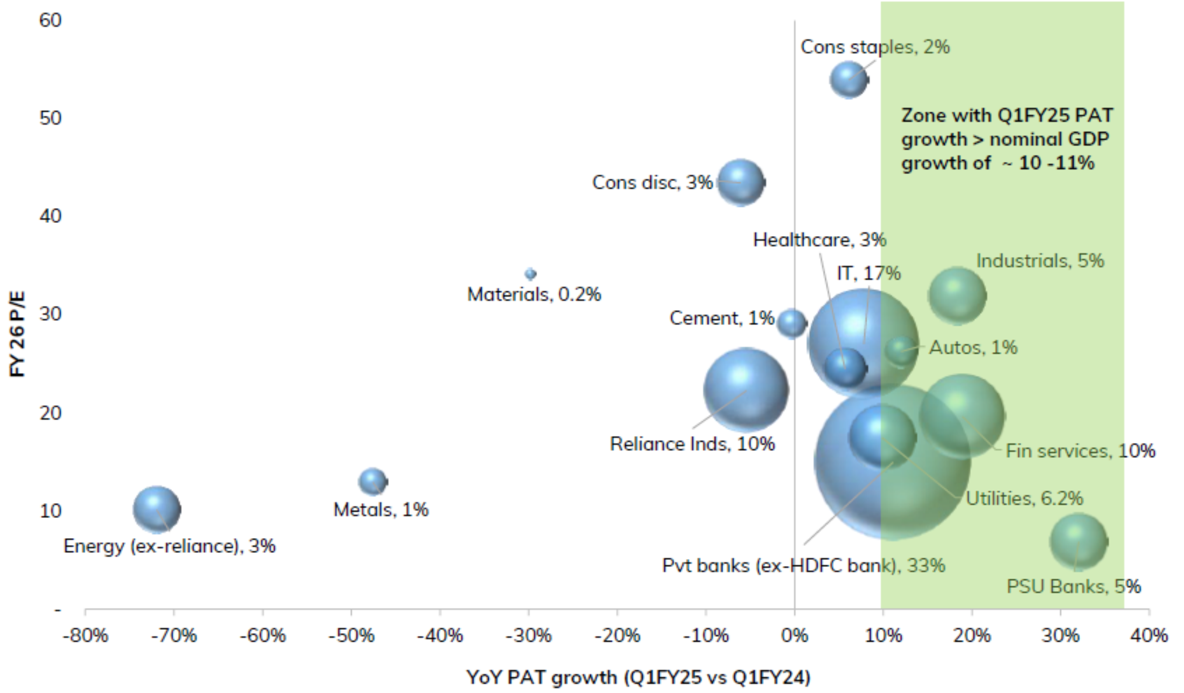

Source: Budget documents, RBI, Axis Bank Research

**Q1FY25 Earnings so far…**

- In Q1FY25, capital-intensive sectors like Industrials (21%), Utilities (19%), Real Estate (58%), and Autos (12%) exhibited strong demand and PAT growth above the nominal GDP growth of 11%.

- Meanwhile, IT (10%), Consumer Staples (10%), and Healthcare (6%) had positive but lower PAT growth. Sectors such as commodities and select consumer discretionary segments saw a decline in PAT growth, despite strong demand in aviation and commodities (Exhibit 4).
- Strong investment demand in Infrastructure, Defence, Utilities, and Capital Goods contrasted with weak consumption trends in premium goods, while demand for staples was mixed. A very intense heat wave during the May/Jun months also led to lower consumption.
- Exports showed varied performance with robust US pharma sales and cautious growth in IT, while stable NPAs and robust credit growth benefited financials despite some pressure on margins.
- Weak commodity prices aided manufacturers but hurt producers, and rising freight costs added pressure.

**Exhibit 4: Q1FY25 Growth of NSE200 sectoral profit pools and valuations**




Source: Bloomberg, Capitaline,I-Sec research

Note: Kotak Mahindra Bank PAT growth excludes exceptional gain in insurance business. Further, we considered 80 companies within NSE200 which is covered by at least 5 brokerage house.

## Agriculture/Monsoon Update

- Rainfall is 3% above average, with Central and Southern India in surplus and other regions in deficit. The monsoon is expected to improve in northern India soon, aiding crop sowing (Exhibit 5). This is important for the revival of rural segment.
- Vegetable prices have surged by 27% annually due to extreme weather, though other food prices show mixed trends. Prices may drop in August with new supply which would result in decrease in food inflation.

**Exhibit 6: Heavy spatial divergence, Sowing status improves YoY**

| Cumulative rainfall surplus/deficiency, (%) | 26-Jul-24 | 19-Jul-24 | 12-Jul-24 | Same period last year 26-Jul-23 | 19-Jul-23 | 12-Jul-23 |
|---|---|---|---|---|---|---|
| India | 3 | (2) | (3) | 5 | 2 | 2 |
| North West India | (16) | (12) | (1) | 34 | 46 | 59 |
| Central India | 16 | (3) | (8) | 14 | 8 | 4 |
| South Peninsula | 25 | 24 | 6 | 2 | (19) | (23) |
| East and North East India | (16) | (11) | (3) | (25) | (19) | (19) |

| Weekly rainfall surplus/deficiency, (%) | 24-Jul-24 | 17-Jul-24 | 10-Jul-24 | Same period last year 26-Jul-23 | 19-Jul-23 | 12-Jul-23 |
|---|---|---|---|---|---|---|
| India | 41 | - | 12 | 20 | (1) | 34 |
| North West India | (21) | - | 66 | (13) | (3) | 115 |
| Central India | 107 | - | (1) | 42 | 22 | 36 |
| South Peninsula | 97 | - | 2 | 129 | 0 | 12 |
| East and North East India | (44) | - | (7) | (57) | (37) | (27) |

Source: IMD, Ministry of Agriculture, CWC, Emkay Research

**Impact of new F&O regulations**

- A couple days ago, SEBI announced changes to F&O regulations to curb the excessive participation of retail in derivative products.
- These changes are largely restricted to index-based derivatives. With weekly options expiry happening every day, many retailers were "gambling" around the options premium.
- We don't expect this to have a material impact on the overall market sentiment or valuations. In fact, some statistics show that retail has been losing close to INR 50000cr in FY24. In the long run, it should make the market healthier.

**Conclusion**

- The last two months have been extremely good for the market – largely because the election related uncertainty got settled and the US macro situation has made the market confident about impending Fed and RBI rate cuts – we are positioning ourselves accordingly. We feel that a significant part of this is now priced in. Going forward, we expect EPS growth to be the major driver for returns as opposed to valuation re-rating.
- We remain watchful of the above developments and continue to remain focused on investing in bottom-up fundamentally sound growth-oriented companies trading at reasonable valuations.

We will be happy to have a quick call with you to discuss your portfolio.

Also, we will highly appreciate any references that you can share.

Warm regards,
MoneyGrow Team



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