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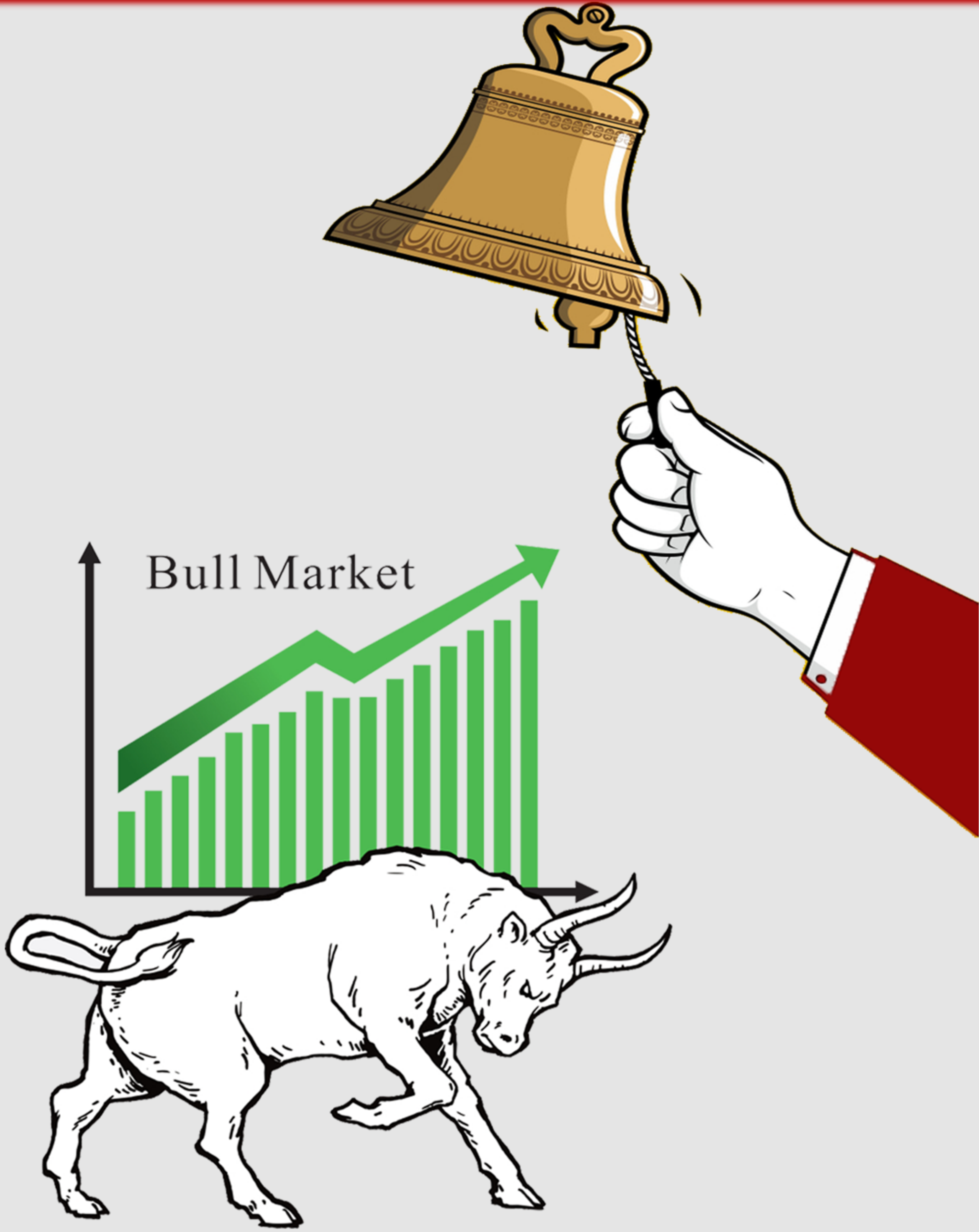

Q2 Earnings Surprises Could Lead To Sharp Stock Moves

India Inc. has just closed its books for Q2 FY24 and scorecards of businesses have started coming in. Since markets have been range-bound of late, any surprises or shocks during the earnings season can set the tone for the next leg of momentum in stock markets. Here's a look at what investors can expect from the upcoming corporate results.

IT sector likely to cut FY24 guidance

TCS recently announced its Q2 numbers and they were in some ways an extension of what was seen in Q1. Revenue growth has been modest despite rupee depreciation, as lower overseas discretionary technological spending continues to weigh on Indian IT service exporters. Companies catering to export demand from the BFSI, retail, and telecom segments are expected to lag, while those catering to energy, resources, and utilities can be expected to be better off. Tier-II companies are expected to fare slightly better on revenue growth.

While the order book of TCS at the end of the quarter was at the lower end of analyst expectations, it was the second largest order book ever reported by the company. Similar large deal wins are expected to prop up the order books of other IT companies as well. But their impact on revenues is likely to show up only in FY25.

In terms of margins, Q2 had two opposing forces at play – on one hand, recent wage-hike normalization would have helped margins, while on the other hand the trend of employees coming back to office and higher travel expenses would have hurt margins. Which way the profitability scale tilts for each IT company would be interesting to watch in the ongoing earnings season.

Q2 performance as well as FY24 guidance can be expected to be affected by the recent downturn seen in the Eurozone. Infosys had already cut down its FY24 guidance last quarter. Some of the other major players may be expected to follow suit this quarter.

Over the short term, expectations of buybacks can prop up stock prices to an extent. But the medium-term stock price outlook is going to be driven by management guidance for the year, as well as companies' deal pipelines. Finally, coming to long-term strategic initiatives, it would be good to keep track of companies' focus on AI as reflected in the team-strength dedicated towards AI projects.

OMCs, Automobiles, and BFSI sectors are expected to hold the fort

Crude has rallied sharply in Q2, with Brent appreciating by 23 percent from $75/bbl to more than $90/bbl. While this is expected to shrink margins of OMCs compared to the record highs seen in Q1, margins are expected to still report healthy year-on-year growth aided by strong gross refinery margins and inventory gains.

Coming to the auto sector, no recovery in rural sector is expected in Q2 as higher inflation, particularly food inflation aggravated by erratic monsoons this year, is likely to have hurt the purchasing power of rural consumers. This explains flat volumes in the sector in Q2, dragged down by segments such as two-wheelers and tractors.

Having said that, the broader sector revenue growth can be expected to be decent, supported by strong demand for medium and heavy commercial vehicles, as well as premium-segment passenger vehicles. As OEMs move towards premiumisation, an improved product mix is expected to help the industry's financials. Furthermore, two-wheeler sales also looked up in September, thereby raising hopes of a broader recovery aided by the upcoming festive season. Finally, mellow commodity prices are expected to have led to a margin expansion in the industry.

When it comes to BFSI, net-interest-margins are likely to have experienced pressure. But, supported by strong retail lending, earnings growth in Q2 is still expected to have been robust, at 20-25 percent year-on-year.

Other sectors are a mixed bag

Consumer staples' companies catering to rural demand are expected to have borne the brunt of the recent rainfall deficit. Rural demand is likely to have remained muted during the quarter, thereby dragging down volume growth. Volumes are likely to report low-to-mid single-digit growth year-on-year. But companies like Nestle, with a higher exposure to urban demand, are expected to fare better. Q3 may be better for this sector as festive season optimism overtakes rainfall woes.

Pharmaceutical companies which had reported strong growth in Q1, helped by robust demand in US, are expected to continue the momentum into Q2 as well. Drug shortages leading to sequential improvement in price stability in the US, launch of products in categories of limited competition, rupee depreciation during the quarter, and mellow input prices are expected to have worked in favour of Indian Pharmaceutical exporters. Domestic demand is likely to have remained relatively muted, owing to last year's high base as well as irregular monsoons this year.

Any surprises or shocks against these expectations can lead to sharp movements in stock prices. Short-term investors are advised to brace for volatility in individual stocks during the earnings season. Long-term investors should use corrections driven by short-term hurdles as opportunities to build positions in fundamentally strong businesses.

IMF Forecasts 6.3 Percent GDP Growth For India, But No Big Investment Jump

The IMF has upped its GDP real growth forecast for India by 0.2 percentage points to 6.3 percent for 2023-24 and kept its forecast for 2024-25 and 2025-26 at 6.3 percent. That's not too different from the RBI forecast of 6.5 percent GDP growth this fiscal year.

While India's growth is high relative to other large economies, the fact remains that it's still well below the growth rates notched up during 2003-2007 and also lower than in 2010-11.

The obvious reason is that the world economy was doing much better then. In 2007-08, during the final gasp of hyper-globalisation, the volume of goods and services exports from India grew by a huge 18.5 percent. In 2011-12, this growth was 12.9 percent. In sharp contrast, the growth in the volume of goods and services exports is forecast to be negative this year and 4.7 percent in 2024-25. Export demand is tepid, thanks to low global growth.

But it isn't just export demand that is to be blamed. It is surprising that, in spite of widespread expectations that growth in private capex is poised to take off, the IMF's forecast for India's investment demand is very tepid. India's investment as a percentage of GDP was a very high 38.1 percent in 2007-08 and 39.6 percent in 2011-12. It is forecast to be a much lower 31.7 percent this fiscal and even by 2024-25 it is expected to be less than 32 percent of GDP. It's common knowledge that a spurt in investment demand is necessary for taking GDP growth higher, so, with its forecast of investment not picking up, it's no wonder the IMF is predicting flat GDP growth for India for the next few years.

India's savings, as a percentage of GDP, is also projected to grow at a snail's pace (see chart), and is expected to be much lower than the 36.8 percent of GDP reached back in 2007-08.

What then is expected to propel India's growth? Domestic consumption of course, but also government support. General government borrowing (which includes that of the centre as well as the states) is projected by the IMF to remain well above 8 percent even in 2024-25, while general government gross debt is forecast to be above 80 percent of GDP even in 2025-26.

One side effect of the low investment projections is that the current account deficit is expected to remain well within limits, unlike in 2011-12 and 2012-13.

It's likely, though, given the strong balance sheets of Indian firms and banks and given the growth in consumption and the rise in capacity utilisation, that the IMF has under-estimated India's investment increase over the next few years.

Look What Our Research Analyst Has To Say...

As we mentioned is the previous week the rejection candle got a good follow through on the upside but witnessed some amount of profit booking towards the end of the week. For the week ahead we expect the index to consolidate in a range of 19500-19850 with a sideways bias.

There will be lots of volatility on the on the intra week basis but will be a consolidated week. Any expansion outside the said range will trigger a directional trade on the index which is expected to be on the upside.

Anshul Jain

Sr. Research Analyst

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Wealth Bagger Stock Picks For The Week

SIEMENS

SIEMENS

About The Company

Siemens Limited, the flagship listed company of Siemens AG in India, specializes in providing technology solutions and integrated products for a wide range of industries. Their offerings cover industrial applications, process industries, infrastructure, clean power generation, and electrical energy transmission.

Siemens India is a technology-focused firm with a diverse product portfolio spanning building technology, energy, healthcare, automation, and more, catering to industries like aerospace, automotive, and power utilities. With global technology leadership and local expertise, the company is positioned to support sustainable growth in India. Headquartered in Mumbai, Siemens India serves a broad international market, including Asia, Europe, the Middle East, Africa, and North America.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 1,27,926 Cr	₹ 57.3	₹ 2,040 Cr	75%	4,069 / 2,692

Outlook & Valuation

Siemens is poised for long-term growth based on several key factors. The company has a robust and diversified presence across various industries with a focus on electrification, digitization, and automation products. Their strong balance sheet and emphasis on product localization position them well for success. Additionally, the rising trend of digitalization in India, driven by government initiatives like 'Make in India,' is expected to boost manufacturing capacity, leading to investments in digital infrastructure. Siemens is prepared to cater to this growing demand, particularly in areas like supply chain digitalization, energy efficiency, and cybersecurity.

Moreover, the industrial decarbonization trend is gaining momentum, and Siemens has developed solutions to help customers achieve their carbon neutrality goals. The increasing data consumption and 5G adoption will also drive demand for data centers, and Siemens is exploring innovative solutions like hydrogen-based power. The launch of the Xcelerator platform underscores Siemens' commitment to accelerating digitalization across various sectors in India.

HINDALCO

About The Company

Hindalco Industries Ltd, a flagship company of the Aditya Birla Group, specializes in aluminum and copper production, with a focus on aluminum sheet, extrusion, and light gauge products for packaging. It operates across the value chain, from bauxite mining to downstream rolling and extrusions.

Hindalco serves diverse industries, including aerospace, automotive, construction, and more. The company has a global presence with numerous manufacturing units and mining operations in India and abroad, contributing to India's copper and aluminum needs. Hindalco is committed to growth and environmental, social, and governance (ESG) initiatives.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 1,08,001 Cr	₹ 37.5	₹ 8,432 Cr	34.6%	509 / 380

Outlook & Valuation

Hindalco Industries (HNDL) is well-positioned in the metals industry due to several factors: a) Expectation of improved per-ton EBITDA for Novelis, driven by resilient developed economies and increasing consumer demand from China; b) The anticipation of lower thermal coal prices and access to captive coal mines benefiting the Indian business post FY26; c) A growing focus on high-margin value-added products, particularly the expansion of flat rolled products (FRP) capacity, which is expected to boost volume growth from FY26.

HNDL plans to increase its FRP capacity in India, aligning with its strategy of focusing on downstream products with higher margins and lower energy requirements. They are poised to serve various industries, including pharmaceuticals, packaging, aerospace, and defense. The commissioning of finishing lines is expected to drive strong volume growth in India from FY26, as aluminum usage and applications continue to rise.

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