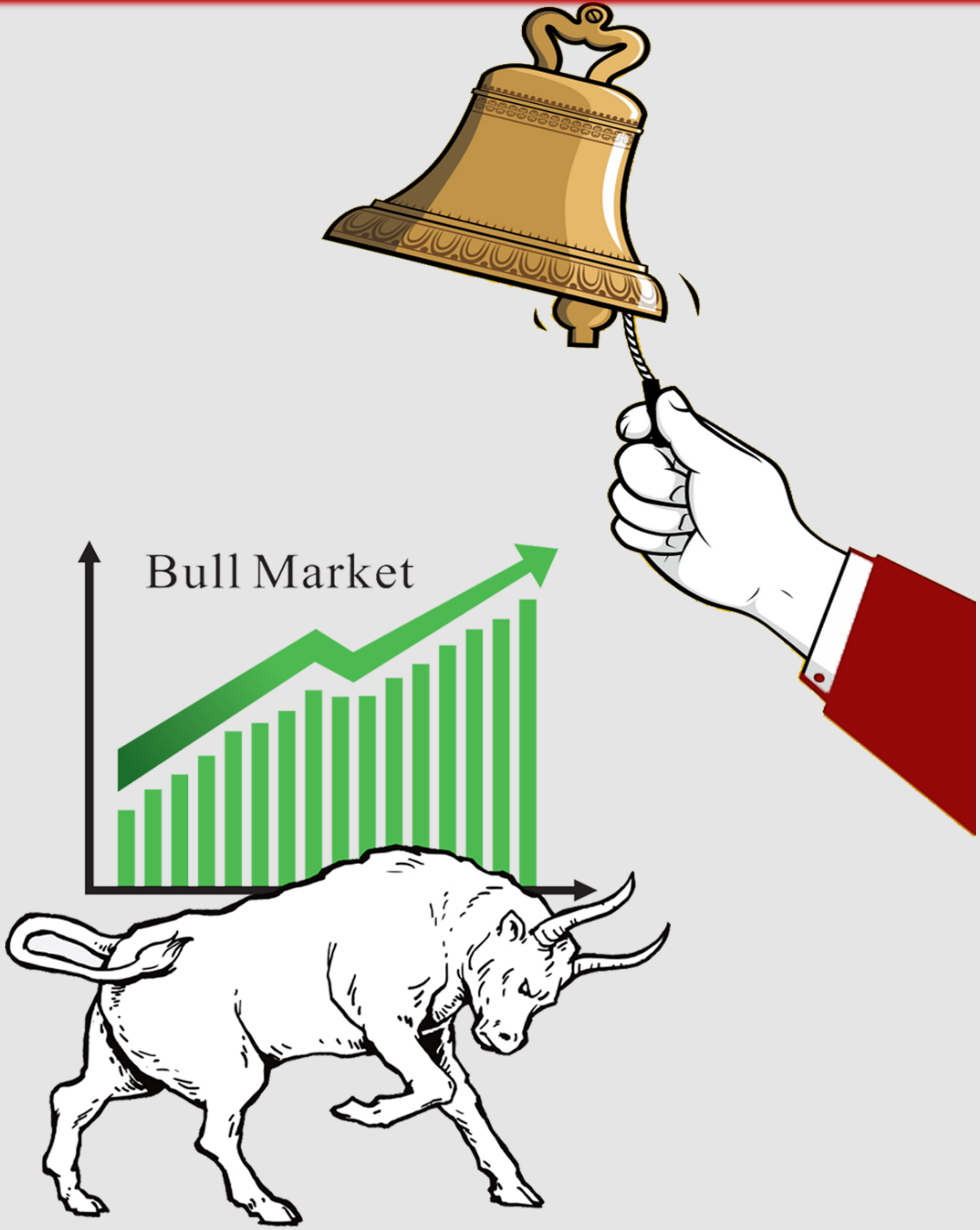
श्री LAKSHMISHREE

*Gateway to your Financial Goals*

# REVERSAL?

# This May Impact Your Investments!!

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# How Large Cap IT Can Diverge From Accenture On Order Wins

Accenture's weak revenue growth guidance for the new fiscal year (FY24) has tempered IT sector investors' expectations ahead of the earnings season. Total order bookings dropped by 10 percent in the quarter ending August 2023. Accenture's fiscal year ends in August 2024. Segment wise, order bookings at managed services, where Indian outsourcing companies have greater presence, dropped 17 percent, triggering caution.

Even so, Indian IT companies' September 2023 quarter (Q2 FY24) results may not mimic the order inflow trends of Accenture. Especially for the frontline IT majors Tata Consultancy Services (TCS), Infosys and HCL Technologies. These companies have won several large projects that can help them report healthy order wins in the September quarter.

Infosys has announced several large projects with a total contract value (TCV) of more than $1 billion each. HCL won a contract from Verizon Business with revenue potential of $2.1 billion. TCS won several large orders with cumulative revenue potential of more than $1.5 billion. The projects can help these three companies report healthy order inflows.

TCS's total order inflows can rise by as much as 48 percent in the September quarter, analysts at Kotak Institutional Equities have forecasted. Infosys's total order wins can exceed $5 billion, up from the last eight quarter average of $2.4 billion. HCL may report record net new deal inflows, boosted by the Verizon project. "We expect strong, and in some cases, record deal TCVs that will set the platform for FY2025E," a report by Kotak said.

The recent large deals are characterized by cost takeout projects where the IT vendors drive better efficiencies or lower costs for customers. Amid uncertain macroeconomic environment clients are prioritising large cost efficiency projects.

"So, what's not happening, right, is discretionary spend globally, as we saw throughout the year, starting in North America, people are not doing smaller systems integration. They're not doing smaller strategy and consulting. They're prioritising and focusing on larger deals," Julie Sweet, chair and chief executive officer of Accenture said in an earnings call.

The focus on large projects bodes well for frontline IT vendors such as TCS and Infosys. They offer a full range of services and have the bandwidth to execute large projects. As order wins over the last couple of months indicate, TCS, Infosys and HCL seem to be doing a decent job capturing those opportunities.

The revenue accretion depends on the pace of execution and customer spends. Unfortunately, the outlook on this front remains uncertain which could constrain near term revenue growth of the IT services companies.

Customers are taking more time to execute projects. Also note that cost take-out projects generally have longer execution cycles. So, revenue accretion will happen over several years.

That said, all frontline IT companies are not equally placed to grab large cost take-out projects. Tech Mahindra has greater exposure to telecom services which continues to face weakness. Wipro has higher exposure to consulting business among the Tier 1 companies—consulting business is facing demand headwinds as seen in Accenture results.

Also, investors should keep a tab on the order inflows at mid and small cap IT stocks who have greater exposure to discretionary spends. These companies tend to have greater dependence on smaller and short cycle projects that are being curtailed. A significant slowdown in order bookings could trigger a reset in investor expectations as midcaps continue to trade at premium valuations to large cap stocks.

# What India Can Learn From China's Innovation Clusters

Which is the world's most innovative country? The answer may come as a surprise. For the 13th year in a row, Switzerland has ranked at the top of the Global Innovation Index, the 2023 edition of which was released last week.

The Global Innovation Index, published by the World Intellectual Property Organization (WIPO) in partnership with the Portulans Institute, uses as many as 80 indicators in four broad buckets, ranks 132 of the world's leading economies across all regions and income groups. The buckets include science and innovation investment, which is measured by the number of scientific publications, venture capital deals and values, R&D spends and number of global patents issued; technological progress, which tracks diverse indicators from computing power availability to the cost of renewable power and electric batteries to drug approvals; technology adoption, which tracks, among other things, safe sanitation, robots, connectivity and even cancer radiotherapy, and finally, the bucket of social impact, which includes indicators like labour productivity, life expectancy and $CO_2$ emissions.

A very eclectic list, and one where the link between some of the tracked indicators and innovation might appear somewhat tenuous, but over the years, the GII has come to be accepted as a fairly reliable indicator of progress in scientific innovation and development.

Given the broad sweep of parameters, it is not surprising that the rankings feature both the usual suspects and some small nations within the top 10. Sweden is 2nd and the United States 3rd, followed by the United Kingdom (4th) and Singapore (5th), marking its first entry into the top 5. Finland is 6th moves closer to the top 5. Netherlands, Germany, and Denmark are rounded off by South Korea at the 10th position.

Perhaps signifying its continued decline as a technological superpower, Japan has now slipped to 13th place, one rank behind China. India is not doing badly, topping the rankings for the lower middle-income countries grouping, but, at the 40th position, has some catching up to do with the world's leaders in innovation, at least as measured by the GII.

India, of course, has gleefully welcomed the rankings. Pointing out that India has climbed from a rank of 81 in 2015 to 40 in 2023, a government press release said the steady climb was "owing to the immense knowledge capital, the vibrant start-up ecosystem", and the "amazing work done by the public and private research organizations." It also noted the "pivotal role" of government research institutions in "enriching the National Innovation Ecosystem."

Patting ourselves on the back is alright, but it must be noted that, just like in the Ease of Doing Business Index, where also India did notably well, the progress has been made possible thanks to asymmetric advances in some areas. Of the 80 indicators, India has done well in export of Information and Communication Technology (ICT) services (5th in the world), venture capital (VC) received (6th, thanks to the booming start-up ecosystem) and the number of graduates produced in science and engineering (11th, never mind the employability quotient).

So, this has led to some outsize progress in some areas. Take Unicorns – start-ups valued in excess of $1 billion – for instance. As of April 2023, there were 1,206 unicorn companies located in 50 different countries globally. But only five countries accounted for 80 percent of all the world's unicorns: the United States (54 percent), China (14 percent), India (6 percent), the United Kingdom (4 percent) and Germany (2 percent). Out of a total unicorn valuation of $3.8 trillion in 2023, US alone accounted for $2 trillion, compared to $736 billion for China and India at $193 billion.

But there are important lessons to be learnt from the world leaders on other parameters. One is in the creation and growth of what are called science and technology clusters. The GII identifies local concentrations of world-leading science and technology activity. S&T clusters are established through the analysis of patent-filing activity and scientific article publication, documenting the geographical areas around the world with the highest density of inventors and scientific authors. WIPO locates and ranks science and technology clusters through a geocoding method, mapping addresses and names pulled from documents to 96 percent accuracy.

And the cluster rankings tell a slightly different tale. The world's five biggest S&T clusters are all located in East Asia. Tokyo-Yokohama (Japan) is at the top as the largest global S&T cluster, followed by Shenzhen-Hong Kong-Guangzhou (China and Hong Kong, China), Seoul (Republic of Korea), followed by China's Beijing and Shanghai-Suzhou clusters.

The US has 21 among the top 100 S&T clusters, Germany 9, and Japan, Canada, India, and the Republic of Korea each have four. But China has a staggering 24, the highest for any country. While there are a number of ways to interpret the cluster data, one reasonable conclusion is that such clusters develop where the linkages between academia, industry and overall economic activity are the strongest. Not surprisingly, India's four clusters are located in Bengaluru, Chennai, Mumbai and Delhi.

It is not difficult to see why. Bengaluru is driven by its IT ecosystem, Mumbai by corporate R&D and economic activity, Delhi by government-led research and Chennai makes the cut thanks to its strong education infrastructure.

It is here that India can learn some lessons from China. By developing as many as 24 such clusters, China has managed to spread its academic, research and industrial infrastructure quite widely across the country. Instead of relying on a few centres of excellence to do the heavy lifting, it has managed to spread its culture of innovation – strongly linked to industry – far and wide.

India needs to do something similar. The focus must be on strengthening industry-academia partnerships, while at the same time improving the overall quality of scientific and engineering education and research infrastructure. Otherwise, internal inequalities and disparities in development are only likely to worsen over time.

# Look What Our Research Analyst Has To Say...


Nifty for the current week has formed a rejection candle and is in a strong zone of support. For the week ahead we expect the pullback to continue as we are bouncing for the 20 week moving average. ralies will face resistance at 19800 above that 20200 is highly likely . On the downside supports are placed at 19600-19550 odd levels and below that swing low of 19300 will act as major support.


**Anshul Jain**

Sr. Research Analyst

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# Wealth Bagger Stock Picks For The Week

# INDIAN HOTELS CO. LIMITED

## About The Company

The Indian Hotels Company Limited (IHCL) is a renowned hospitality company part of the Tata Group, managing hotels, resorts, palaces, spas, safaris, and in-flight catering services. Founded in 1902, its flagship hotel is the Taj Mahal Palace Hotel in Mumbai, India's first five-star hotel. IHCL operates under various brand names like SeleQtions, Vivanta, Ama, Ginger, and more, offering dining options, holiday packages, and wedding planning services.

It has a global presence in countries including India, Maldives, UK, US, UAE, and South Africa. Headquartered in Mumbai, IHCL also offers loyalty programs like Taj InnerCircle and Taj Experiences Gift Cards.

## Particulars

| Market Cap. | EPS | Net Profit | Promoter Holding | 52 Week H / L |
|---|---|---|---|---|
| ₹ 60,076 Cr | ₹ 7.43 | ₹ 1,108 Cr | 38.2% | 436 / 280 |

# Outlook & Valuation


The hotel industry has experienced a strong recovery in FY2023 following pandemic-related setbacks. Factors such as increased demand from domestic leisure travelers, rebounding foreign tourist arrivals, and a resurgence in corporate travel have boosted room demand and rental rates for hotel companies. Industry data suggests that demand is projected to grow by approximately 10%, while supply is expected to increase by only 3-4% over the next 4-5 years, benefiting the sector. Hotel companies are also focusing on cost-saving measures and operational efficiency, which is likely to expand margins.

The Indian Hotels Company Limited (IHCL) has started FY2024 positively, with double-digit revenue growth driven by RevPar. With strong domestic performance anticipated, coupled with international property recovery and new ventures, IHCL expects revenue and PAT to grow at CAGR rates of 17% and 27% over FY2023-26E. Asset-light models will generate high free cash flow, and return ratios are expected to improve.

# Navin Fluorine International Ltd.

## About The Company

Navin Fluorine International Ltd (NFIL) is a prominent Indian manufacturer of specialty fluorochemicals, part of the Padmanabh Mafatlal Group. Established in 1967, NFIL operates major fluorochemical complexes in Surat, Dahej, and Dewas, India. They have four main business units: Refrigeration Gases, Inorganic Fluorides, Speciality Fluorides, and Contract Development and Manufacturing.

NFIL specializes in scaling up research to manufacturing and collaborates with customers to develop new products efficiently. They also operate a cGMP pilot plant in Dewas, supplying specialized fluorinated molecules. NFIL exports over 40% of its 60+ fluorinated products worldwide, serving top-tier life sciences, crop protection, petrochemical, and specialty chemical companies.

## Particulars

| Market Cap. | EPS | Net Profit | Promoter Holding | 52 Week H / L |
|---|---|---|---|---|
| ₹ 18,436 Cr | ₹ 73.1 | ₹ 362 Cr | 28.8% | 4,950 / 3,650 |

# Outlook & Valuation


Navin Fluorine International Ltd (NFIL) is strategically positioned for growth across its high-performance products (HPP), specialty chemicals, and contract development and manufacturing organization (CDMO) segments. The company's business verticals, each led by respective CEOs and supported by strong management teams, are key to sustaining its growth strategy. While NFIL plans to continue its capital expenditure and R&D investments, some future projects may experience slight delays due to global challenges.

NFIL benefits from three multi-year contracts in specialty chemicals, with a projected peak revenue of INR 10.3 billion, providing earnings visibility. Additionally, a long-term contract with Honeywell in the HPP segment is expected to generate INR 4.2 billion in annual revenue from FY24 onwards. NFIL's upcoming projects, including capacity expansion and collaborations, are poised to support its growth trajectory.

# THANK YOU

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