श्री LAKSHMISHREE

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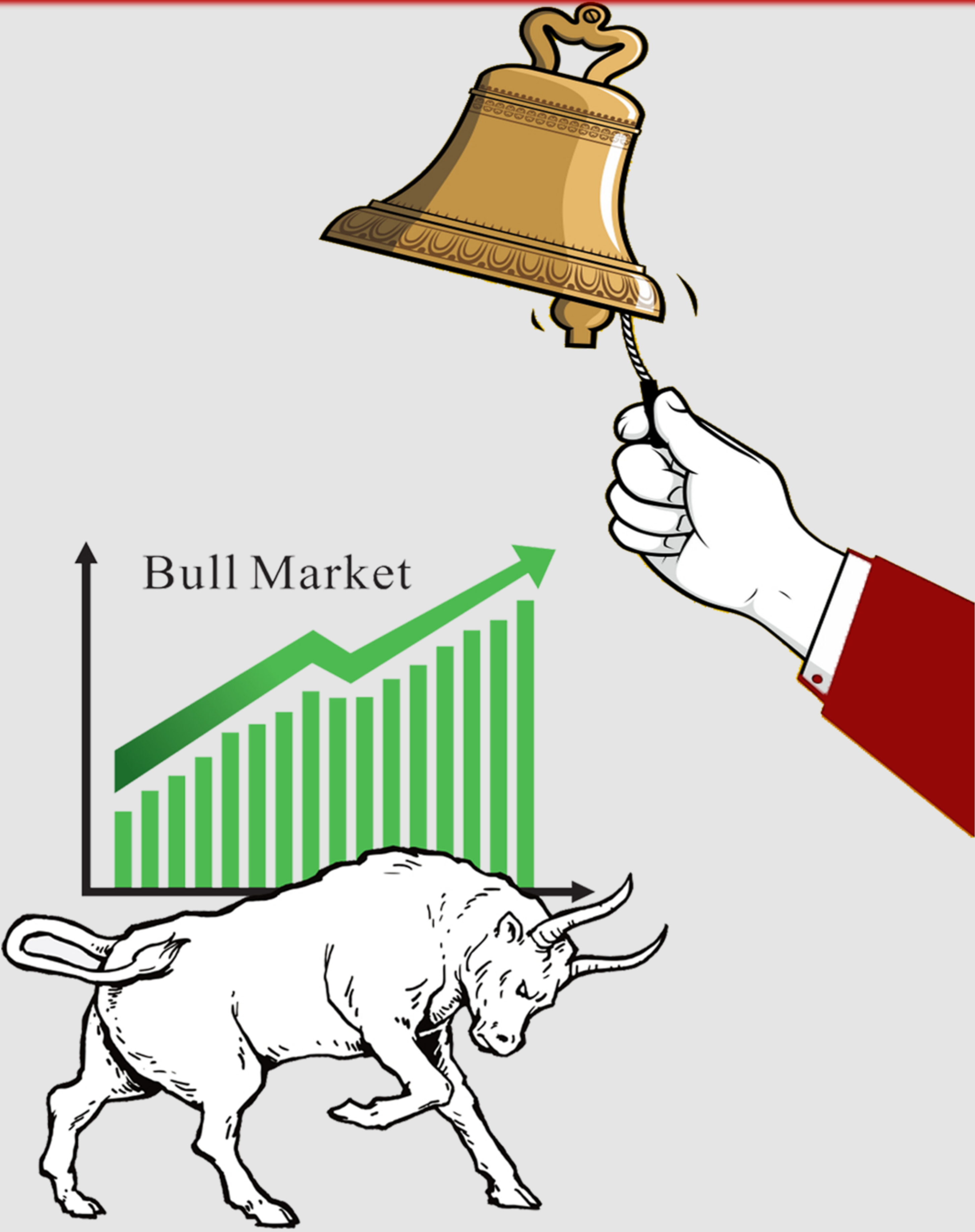
This May Impact Your Investments!!



GDP Growth Surprises Positively Driven By Investments Despite A Strong External Sector Drag

Real GDP grew 7.6% year-on-year during the second quarter of the current fiscal year - higher than the consensus estimate, and the Reserve Bank of India's (RBI) estimate of 6.5%. At this level, GDP growth was higher than the 6.2% yoy for July-September last year and was at largely the same level in comparison to the first quarter of FY24. This meant for the first half of the year, the economy's 7.7% yoy growth, was slower than 9.5% yoy in the first half of last year.

Growth during the quarter was driven by a strong pickup in the manufacturing sector value added, while services growth, and farm sector slowed down both sequentially and from year ago period. Growth in the non-farm, non-government sector GVA, was largely unchanged between the first and the second quarter, with 8.4 % yoy in Q2FY24 and 8.7% in Q1, helped by a recovery in industrial activity.

In terms of the spending side drivers of GDP, gross capital formation was the main contributor to growth, while net exports continued to exert a negative drag. Contribution of private consumption, the largest component of GDP, fell, as growth slowed down between the first and the second quarter. Statistical discrepancies arising from the two different approaches used to measure the GDP, contributed 60 % of the headline growth in Q2, lower than 82 % in Q1, though still significant. Future GDP data revisions, especially on the key spending side components, could thus be large.

Sector Contributors

The sectoral break-up of the GVA data shows that non-farm sector helped drive GDP growth, while the farm sector growth slowed to its slowest in the last 18 quarters. GVA registered 7.4 % yoy growth in Q2FY24, led by the manufacturing sector's double-digit growth of 13.9 % yoy on the back of a favourable statistical base and a pick-up in the sector activity during the quarter. Services sector growth slowed down to 6.6 % yoy in Q2 from 10 % in Q1FY24 and 8.9 % yoy in Q2FY23. The construction sector showed an acceleration in growth on the back of strong public capex spending on roads and robust private residential construction activity. Other major private services registered slower GVA growth during Q2 in comparison to Q1, partly due to an unfavourable base. Farm GVA growth fell to 1.2 % yoy as summer crop output this year has been adversely impacted by uneven distribution of monsoons. Kharif production for 2023-24 is estimated to be 4.6 % lower than last year, based on the first advance estimates by the Ministry of Agriculture. This is also reflected in the slow recovery in rural demand.

Expenditure Picture

On the spending side, capital formation was the main contributor to growth in Q2 and its contribution picked up over the previous quarter. Gross fixed capital formation recorded faster growth at 11 percent yoy in Q2 compared to 7.9 percent yoy in Q1FY24 and 9.6 percent yoy in Q2FY23. Inventory build-up also saw over 10 percent growth. While investment activity continues to be driven by public sector capital spending, private sector capex is showing signs of recovery too. Central government capex spending increased by 43 percent yoy during the first half of the current fiscal year and that of states by 47.4 percent yoy. Encouragingly, private sector investment is picking up. The November issue of the RBI's state of the economy report notes that funds raised by the private sector for capital expenditure from various sources – both domestic and foreign – were 60 percent higher in the first half of the current fiscal year in comparison to the second half of the previous year. Private sector capex would be critical in sustaining growth in the investment activity, especially if the central government increases its revenue spending on various subsidies over the second half of the year ahead of the general elections next year.

Private consumption, which constitutes over 60 percent of the GDP, registered slower growth at 3.1 percent yoy compared to 6 percent yoy in Q1 and 8.3 percent in Q2FY23. This slowdown was on account of higher inflation during the quarter and lagging rural demand. A rebound in consumption growth is likely during the third quarter as consumer sentiment has been improving and inflation is easing. Urban consumption during the festival season has shown a strong pick-up, helped by robust growth in personal loans from banks and NBFCs. Measures announced by the RBI to curb the pace of unsecured lending combined with the ongoing transmission of higher policy rates to lending rates, would act to slow growth in leveraged consumption over the rest of the year. Rural demand is gradually improving too, helped by easing food and fuel inflation. The MSP increase announced for wheat for the winter season was the highest in the last 10 years, which should help support this recovery. Winter crop sowing too is only marginally lo.wer compared to last year. The external sector drag on growth remained large, as growth in imports of goods and services continued to outpace that of exports of the goods and services. While service exports have held up, goods exports have registered de-growth so far this fiscal year. During Q2, net exports dragged headline growth down by 3.6 percent, smaller than the drag of 4.6 percent in Q1FY24. Record merchandise trade deficit in October on the back of higher imports of gold and oil, indicates that this offsetting factor is likely to persist in Q3FY24 too, especially as the global economic activity, for both manufacturing and services is showing signs of loss of momentum.

What Next?

Going forward, headline GDP growth is likely to slow down over the second half of the year in part due to statistical base, but the momentum of growth is likely to remain strong helped by domestic growth drivers of private consumption and public investments. Slowing global growth and curbs on exports of some food items would impinge upon merchandise exports growth, while a stable exchange rate and strong domestic demand would help support non-oil, non-gold imports growth. Heightened geopolitical risks could adversely impact growth through a spike in crude oil prices, as was seen during October. Real GDP for the full year FY24 is likely to be around 6.5 percent, with global headwinds being balanced with domestic tailwinds and overall macro-economic stability. Headline growth could be even higher than that if public capex growth is maintained over the second half and consumption growth sustains. In fact, if the RBI estimate of 5.9 percent growth in the second half holds then the full year growth could be around 6.8 percent.

During the next fiscal year too, the Indian economy can maintain real GDP growth around 6.3 percent, driven by domestic investments and consumption with downside risks emanating from global factors. Global economic environment is likely to remain challenging. Easing inflation globally has given major central banks room to pause their aggressive rate hike cycle. However, higher for longer rates may be needed as headline inflation is holding well above the targets. Global economic activity is likely losing momentum, as lagged effects of coordinated monetary tightening, sharp increase in post pandemic debt levels and its cost of servicing and geo-economic fragmentation, slow growth of output and trade. That would adversely impact demand for India's exports. A prolonged slowdown in the Chinese economy, driven by the structural rebalancing away from real estate and public investments, would impact global activity too and increase financial stability risks. That in turn can adversely impact global risk appetite and trigger capital outflows from emerging markets including India. Manageable external deficit, a large foreign exchange reserves stock, easing inflation, healthy banking and corporate sector balance sheets and a flexible exchange rate would help counter these heightened global risks.

Taking into account the better-than-expected GDP growth print and a bright near-term outlook, the monetary policy committee (MPC) in its meeting next week would consider it appropriate to maintain a stance of withdrawal of accommodation and a pause of Repo rate. While investments have been the main driver of growth during the first half of the year, private consumption is likely to gather pace over the second half and that could keep core inflation supported going forward, even as the headline inflation is likely to rise above 5 percent due to broad based inflationary pressures in food. The MPC would thus remain cautious on overall inflation going forward, noting the strong growth performance.

ESG Factors Powering Energy Investment Decisions

ESG (Environment, Social, and Governance) are the three key pillars on the basis of which sustainable and ethical impact of any business is assessed, measured, and reported beyond its fiscal impact and performance. The integration of robust ESG practices into business operations has evolved into a paramount agenda for the C-suite. Corporations, recognising the need, amend existing policies and practices, set forth ambitious targets and KPIs, disclose or report accurate numbers across parameters and look beyond just financial profits.

India's climate change commitments, as articulated in its Intended Nationally Determined Contributions, coupled with the GOI's initiative 'Panchamrit,' are poised to exert a formidable influence on greenhouse gas (GHG) emission reduction across diverse sectors. The nation's commendable progress toward self-reliance positions it as a frontrunner for global leadership for Renewable Energy (RE).

India has been pioneering in the transition towards cleaner, energy efficient, and newer sources of energy to meet its energy demand and intends to have \$800 billion investment over the next decade, of which \$250 billion is expected in renewable energy, \$250 million in batteries, and \$300 billion in total investment for supporting grid infrastructure, green hydrogen, equipment, and systems.

For example, India's installed electricity capacity is expected to touch 820 GW (gigawatt) by 2030 with renewable contributing to about 50 percent i.e., 420 GW. The power sector shares 35 percent of CO_2 emissions, and this mammoth effort will decarbonise the grid with a current emission factor of 0.79 tCO_2/MWh to as low as 0.51 tCO_2/MWh. This transition provides for significant investment opportunities (as indicated above) across technologies from both national and international investors. These investments will majorly be driven by the corporates, bringing investors' attention towards corporate sustainability initiatives.

To monitor their initiatives through KPIs and provide basis for investment decisions for investors, there is growing importance of ESG integration across sectors and geographies which is reflected through an increase in number of ESG reporting frameworks (mostly voluntary in nature) and standards. Additionally, rating agencies with globally accepted standards and frameworks do comparative assessments with reference to international industry/sector peers best-practices, giving a higher benchmark to Indian firms from ESG performance viewpoint. The ESG ratings compliment the financial ratings of companies, giving investors a wider lens for responsible and profitable investment decisions.

Factors influencing ESG integration include contribution from every stakeholder viz, regulators, investors, and communities.

Regulators: The Securities and Exchange Board of India (SEBI) requires mandatory ESG disclosures called the Business Responsibility and Sustainability Report (BRSR) by top 1000 listed companies (by market cap) and select KPIs are subject to reasonable assurance from FY24. It is aligned with global standards (such as Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB)) and provides for uniform standard reporting for companies. Additionally, SEBI introduced ESG funds and RBI introduced guidelines for banks and NBFCs to accept green deposits. Green bonds have gained traction, allowing investors to support environment-friendly projects and renewable energy ventures. These financial instruments not only generate returns but also contribute to sustainable development. Furthermore, the emergence of ESG Nifty 50 funds and carbon bond initiatives has opened avenues for stakeholders to invest specifically in companies and projects that align with their ESG principles.

Investors: The increased investor focus on sustainability is forcing traditional energy companies to reduce their dependency on non-renewable sources of energy, improve and adopt sustainable policies and practices. This change reflects a broader paradigm shift from a shareholder-centric approach to a stakeholder-centric approach, where investors consider the environmental and social impact of their investments. In addition to the above, large companies are voluntarily participating in various international ESG indices such as Dow Jones Sustainability Index (DJSI), MSCI, Sustainalytics, etc. These indices provide public ratings by conducting an in-depth analysis on various ESG KPIs of publicly available information of respective companies. The basis of evaluation includes transparency, quantitative & qualitative assessment of ESG KPIs, management of ESG risks & opportunities, etc. These ratings influence the decision-making of the investors, providing them with a holistic picture of companies' ESG performance, and risk identification (helps pre-strategize and is of particular interest to foreign investors). All these indices require annual reporting that helps track progress, ensure improvement in existing practices, set targets, and identify improvement areas for the next reporting cycle.

With this rapid evolution, investors have begun to diversify their investment portfolio by investing in cleaner energy alternatives and energy efficiency initiatives to save both costs and emissions in new (renewable & new fuels) and existing energy assets (coal, oil & gas, etc.). This provides an opportunity for investors to actively support companies with positive environmental and social impact, while still seeking financial returns.

Communities: The "S" in ESG refers to the social impact that a company creates on the communities at large. Communities may include the employees and workers of a company, its consumers, and the public. Careful assessment of socioeconomic and environmental impact along with cost-benefit analysis will be imperative before any project qualifies as sustainable. For example, development of hydropower projects may involve high environment and social impact in terms of rehabilitation & resettlement of communities and biodiversity. Considering these factors, it is vital to assess the potential social and environmental impacts associated with renewable/non-renewable sources of energy and integrate ESG screening in decision-making to mitigate risks and preserve communities and biodiversity.

In conclusion, diversifying portfolios to include sustainable energy assets presents an excellent opportunity for investors to align their financial goals with positive environmental and social impact. By investing in a mix of traditional energy sources and clean technologies, portfolios can contribute to the transition towards a low-carbon economy and potentially reap the benefits of growth in the sustainable energy sector. Going forward as reporting requirements become more stringent, have an enhanced coverage, and become more transparent, they will dispel the risk of greenwashing and boost investor confidence. With the right institutional support, policy-level interventions, and collaboration of stakeholders, the energy transition would not only create a win-win situation by simultaneously driving sustainable practices and financial gains but also align with ESG principles and contribute to a more sustainable and resilient energy landscape.

Look What Our Research Analyst Has To Say...

With 4 days of rally and 2 bullish gaps the index registered fresh all time high above 20250. The breakout from previous ATH is accompanied with huge volume surge but lack of open interest , which as of now is the only red flag in the bulls party. On the weekly charts its a strong almost full body marabuzo candle and the current week low should be used as trailing stop loss for all kind of longs. Heading forward quarterly R1 at 20445 will act as a major resistance and profit booking should creep in from the said resistance. Supports are placed at 20200 odd levels and should be used for buy on dips.

Anshul Jain

Sr. Research Analyst

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Wealth Bagger Stock Picks For The Week

Samhi Hotel

About The Company

Samhi stands as a leading ownership and asset management platform for branded hotels in India, boasting a collection of 31 operational hotels encompassing 4,801 rooms. Its reach spans across 13 diverse cities in India, including key locations like the National Capital Region (NCR), Bengaluru, Hyderabad, Chennai, and Pune. Additionally, Samhi has two hotels currently in development, adding up to 461 rooms in Kolkata and Navi Mumbai. The company solidifies its position with enduring management partnerships with three globally acclaimed hotel operators: Marriott, IHG, and Hyatt.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 3,894 Cr.	₹ -39.7	₹ -339 Cr	0.00	182 / 127

Outlook & Valuation

Samhi Hotels operates upscale and midscale international brands like Marriott, Hyatt, and IHG across major Indian business hubs. Their growth strategy focuses on swiftly acquiring and revitalizing properties, leading to substantial room additions and robust revenue growth in H1FY2024. This approach, coupled with a strong brand portfolio managed by the company, forecasts a promising operating performance, with an anticipated 20% revenue and 24% EBIDTA growth annually from FY2023 to FY2026.

Their systematic method involves acquiring and optimizing underperforming hotels, mitigating risks associated with India's development cycle. This approach, along with industry trends, positions Samhi for consistent success. Moreover, the company's emphasis on reducing debt indicates a path toward profitability by FY2025.

By significantly reducing net debt and maintaining a diversified portfolio across various cities, price ranges, and hotel operators, Samhi minimizes market volatility's impact. Their versatile business model positions them to capitalize on growth across multiple hotel segments, affirming their pursuit of becoming a leading and well-managed hotel entity in India.

TATA CONSULTANCY SERVICES

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About The Company

Tata Consultancy Services (TCS) stands tall among the leading multinational IT service and consulting firms. With its headquarters situated in Mumbai, India, it maintains a strong global presence through its widespread network of offices. TCS holds a distinguished reputation in the domains of e-governance, banking and financial services, telecommunications, education, and healthcare.

As a key player in the realm of IT, TCS commands a substantial presence, boasting a workforce exceeding 600,000 employees and a market capitalization surpassing $200 billion.

Particulars

Market Cap.	EPS	Net Profit	Promoter Holding	52 Week H / L
₹ 12,84,931 Cr	₹ 122	₹ 44,819 Cr	72.3%	3680 / 3070

Outlook & Valuation

The global outlook for FY24E remains uncertain due to persistent headwinds, posing challenges for Indian IT companies. However, TCS, a major global IT services firm, stands well-equipped to navigate this landscape. With a significant market presence and esteemed clientele, especially in digital and Cloud transformation ventures, TCS is poised to capitalize on these opportunities. Their competitive edge in newer technologies, adept management, and capacity for substantial deals positions them for robust revenue growth in the next few years, aiming for a consistent payout ratio of 80-100% of free cash generated. Despite the macro challenges, recent major deal wins and a strong order book offer revenue visibility. Projections estimate an 8.4% to 10.9% Sales and PAT CAGR from FY23 to FY26, supported by TCS's expertise, global reach, and ability to secure significant transformational deals even amid uncertain economic conditions.

THANK YOU

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