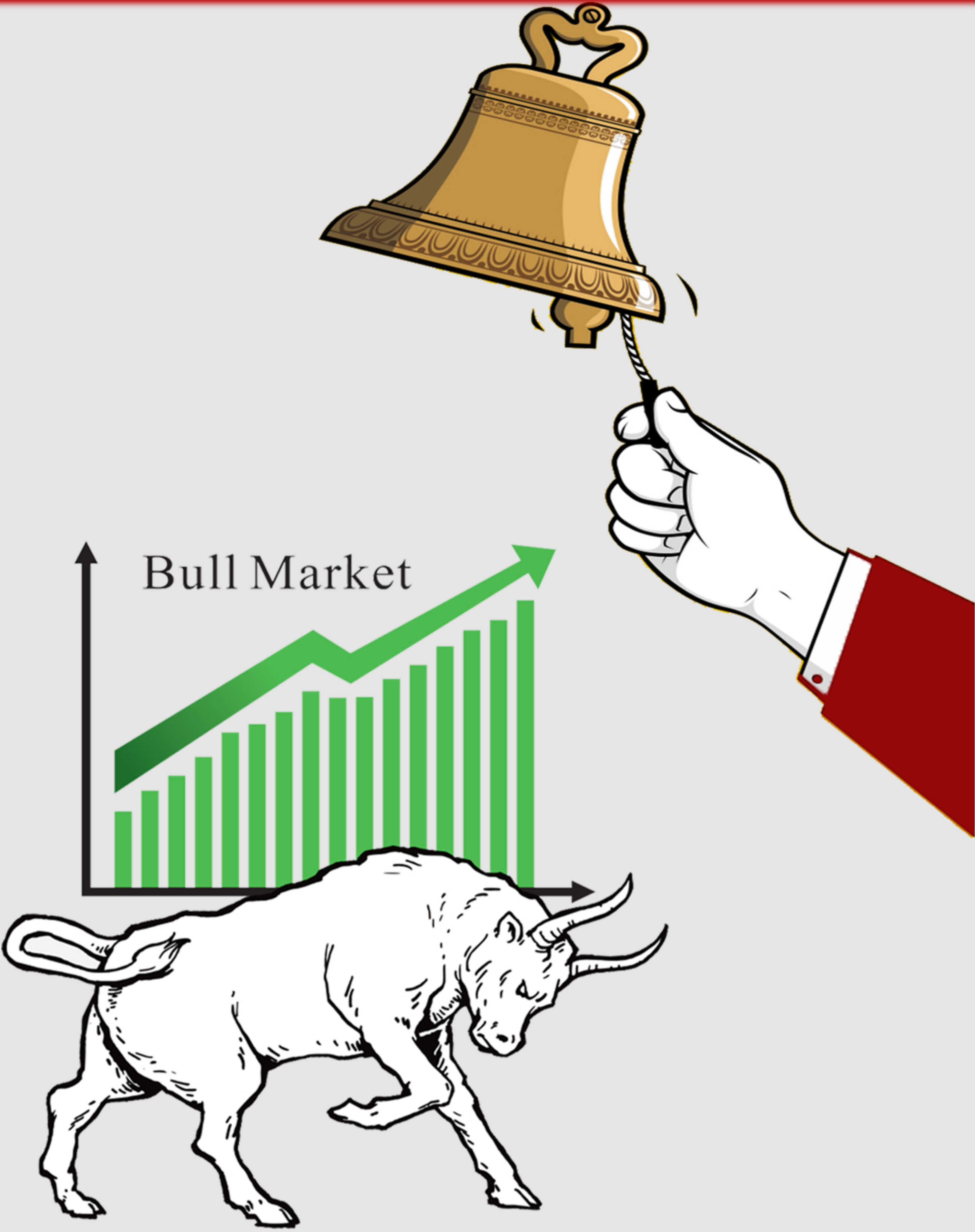
श्री LAKSHMISHREE

Gateway to your Financial Goals

Silence Before The Storm...

This May Impact Your Investments!!



Services Sector Powers Near 8% Real GDP Growth In Q1, Highlights Strong Momentum

Real GDP growth accelerated to 7.8% yoy in the first quarter of the current fiscal year, registering the strongest growth in the last 4 quarters. The headline print was along the expected lines, as various coincident and leading indicators of economic activity pointed towards improving momentum, particularly in the services sector. Based on the sectoral break-up of GDP data, the services sector, which constitutes over 60% of output, recorded 10% yoy growth, coming on top of 16.3% growth in the same quarter last year (Q1FY23).

Non-farm sector GDP growth accelerated to 8.6% yoy from 6.6% in the preceding quarter (Q4FY23), as manufacturing sector growth improved marginally. On the spending side, domestic drivers of private consumption and capital formation led by the public sector continue to power growth, while the external sector remains a drag – a pattern seen over the last fiscal year too.

Interestingly, external sector drag deteriorated over the quarter, even as the merchandise trade deficit fell during the quarter in comparison to Q1FY23. Imports registered double-digit growth in real terms, even though they contracted in nominal terms on the back of sharply lower commodity prices. This divergence shows that underlying imports demand remained strong – a reflection of the strength of overall domestic demand conditions. Exports contracted both in real and nominal terms, as global merchandise trade growth continued to slow down on the back of slowing manufacturing activity.

Spending side break-up of the data also showed a large contribution to growth coming from statistical discrepancies, which arise due to different methods of estimating the GDP numbers. That adds some noise to the data. GDP estimates will get revised in future as more data becomes available and private consumption or capital formation growth could turn out to be higher.

The sectoral break-up of GDP estimates shows that GVA growth came in at 7.8% yoy, helped by 3.5% yoy growth in farm and allied sectors, 4.6% yoy growth in industry, and 10% yoy growth in services. In the services sector, growth during the quarter was driven by strong and broad-based momentum in both consumer and producer services in the private sector. Among the major sub-sectors, construction registered 7.9% yoy growth supported by a sharp increase in public sector capex on roads and highways and buoyant activity in residential real estate.

Financial services showed strong performance too on the back of robust bank credit demand, a pick-up in deposit mobilisation, strong treasury income and stable asset quality. Business and professional services too showed steady growth led by IT service exports. As a result, financial, real estate and professional services recorded 12.2% yoy growth, registering their strongest performance since Q1FY17. Consumer services like travel, hotels, trade and tourism services also witnessed over 9% growth for the third successive quarter. This broad-based resurgence in services sector activity could continue over the second quarter and would aid growth in private consumption, the largest component of GDP. Manufacturing sector activity is likely to get a fillip from the start of the festival season, which is likely to help boost sales. Farm sector growth could be adversely impacted by the shortfall in the monsoon rains, even as the summer crop sowing, measured by the net sown area, remains at the same level as last year.

The domestically oriented nature of India's growth is visible in the spending side break-up of the GDP estimates. Private consumption growth accelerated to 6% yoy during Q1FY24 from 2.83% yoy in Q4FY23, helped by strong and resilient urban demand. Government consumption growth remained tepid, registering de-growth of -0.72% yoy, as central government restrained revenue spending, while increasing capital spending sharply by about 59% yoy during the quarter. Gross fixed capital formation registered 8% yoy growth, a tad slower than 8.9% yoy in Q4FY23, on account of the high statistical base effect. Central and state government capital expenditure registered robust growth during the quarter. Real investment rate as percentage of GDP was largely unchanged at 36.2% in Q1FY24 from 36.4% in Q1FY23. The prospects of investment activity holding at these levels remain bright, on the back of improved capacity utilization in the manufacturing sector, strong bank credit demand and improved business sentiment.

The private sector capex outlook is improving too. Based on an analysis by the RBI, envisaged capex has increased significantly to Rs 1715.7 billion for the current fiscal year as against Rs. 948.76 billon in the previous year. Global policy uncertainty and rising cost of borrowing can continue to deter actual investments though. The external sector remained a drag on growth, as exports of goods and services registered a de-growth of -7.7% yoy in Q1FY24, while imports registered 10.1% yoy growth. Private consumption and gross capital formation together contributed 80% of the headline GDP growth. Net exports dragged headline growth by almost 4.6%, while statistical discrepancies provided over 6% of the headline, countering the external sector drag in the process.

The outlook for economic activity remains promising, even though real GDP growth over the rest of the year is going to slow down on the back of a high statistical base, domestic monetary tightening, resurgent food inflation and slowing global economic and trade growth adversely impacting exports demand. A broad-based services sector growth would continue help drive growth in the near-term helping to support urban demand. Rural demand recovery hinges on the out-turn of monsoons during September, which can not only impact summer crop sowing but also soil moisture and water reservoir levels for the winter crop.

Ahead of key state elections some fiscal support to counter food and fuel inflation can be expected and will help support overall consumption. Investment activity is likely to remain strong, helped by the front loading of central government budgeted capex of Rs. 10 trillion and support for state level capex. Even private sector capex is showing signs of pick-up in certain sectors and is being facilitated by the strong balance sheets of banks. However, volatility in global capital markets in the backdrop of tighter financial conditions can act as a headwind. External sector drag can continue, especially if domestic demand continues to support non-oil, non-gold imports demand on top of negative exports growth. Overall real GDP growth for the fiscal year FY2023-24 can print around 6.3%.

In terms of implications for monetary policy, the headline growth was in line with the RBI estimate of 8% for the quarter. The monetary policy focus would thus remain on inflation. In that context, the RBI's state of the economy report for August 2023 notes that the output gap turned positive in Q4FY23, after remaining negative since Q4FY20. The pandemic induced slack in the economy is thus closed. The first quarter GDP print would further reinforce the resilience of the underlying growth conditions.

The RBI through the incremental CRR hike announced alongside the August MPC meeting, has already pushed up its operating target rate, the weighted average call rate, by about 25 bps by removing excess liquidity worth Rs. 1.1 trillion. In all likelihood, the incremental CRR hike is unlikely to be fully reversed in September. This temporary and pre-emptive monetary tightening in turn would help counter the second round impact of the vegetable price driven spike in the headline inflation, at a time when there is no slack in the economy and core inflation is sticky around 5%. The MPC in its October meeting would weigh on whether the strong growth impulses are reinforcing demand side inflation pressures and the first quarter GDP would give them a reason to remain cautious.

NBFCs Risk Profitability If They Binge On Unsecured Loans

India's non-bank finance companies have had a great run of profitability in FY23 which extended to the first quarter of FY24 as well, notwithstanding the beginnings of challenges on margins. Lenders are now risking this streak as they continue to binge on unsecured retail lending, just like their banking peers.

Such has been the rise that the Reserve Bank of India (RBI) has sounded a note of caution, again. In a meeting with the top layer of large NBFCs on Friday, Governor Shaktikanta Das urged lenders to pay close attention to unsecured loans and their quality. Das has asked lenders to remain vigilant and have strong risk management and corporate governance in place to avoid accidents. The worry is shared by investors as well as the management of some lenders too. A month ago, Bajaj Finance Ltd's chief Rajeev Jain expressed his worry over the unbridled growth in unsecured retail lending. Such a warning from the consumer lender whose business model is based on unsecured retail lending should not be taken lightly.

But why is unsecured lending by NBFCs worrying everyone now?

NBFCs by nature target riskier credit profiles to lend, as typically they target borrowers that banks do not lend to. Unsecured loans by nature do not have the comfort of collateral for the lender in case of stress. For NBFCs, this means the risk of non-performance is far higher than for banks. The share of unsecured lending could rise to 18 percent of NBFCs' loan book by FY24 from 12 percent two years ago, according to ICRA Ltd. While unsecured loans are growing at a fast clip, secured housing loan growth is decelerating.

NBFCs have also been lending to first time borrowers that do not have a credit history. In other words, the lender does not have a reference point to be confident of getting the money back. Further, NBFCs have been tying up with fintechs to drive loan growth where the extent of oversight on credit risk pricing is diluted. The performance of unsecured loans should also be another reason to worry. India Ratings pointed out that during normal times, 4-6 percent of unsecured loans tend to turn bad. An increase in stress could easily take these ratios further up.

While their asset side is riskier compared with banks, the dependence of NBFCs on institutional sources of funds puts their liabilities vulnerable to cost increases. In episodes of stress, NBFCs will face a double whammy of rise in non-performance on the asset side and an increase in the cost of liabilities. A decline in the quality of their assets would directly influence the cost of their liabilities as investors would demand higher compensation to put money into NBFCs.

The odds of unsecured loans getting into trouble are not negligible. Analysts at India Ratings Ltd have flagged a good reason for this. The leverage on the balance sheet of Indian households has been rising fast in recent years. In FY22, personal loans as a percentage of gross domestic product (GDP) were around 15 percent, higher than the ratio of savings to GDP for households. Ten years ago, the situation was the opposite with savings to GDP ratio far outstripping that of loans to GDP for Indian households. This shows the sharp rise in leverage on balance sheets. Recall that overleveraged corporate balance sheets were behind the painful bad loan cycle that snuffed out the capital of banks.

Since India's households are predominantly savings-oriented, a surge in leverage does not mean an automatic decline in repayment capacity. Repayment depends on income growth, and this is where it gets worrying. Real wages have been stagnant in India for many years and the trend hasn't changed dramatically post the pandemic. The periodic labour force survey (PLFS) data shows that real wages have been flat post pandemic. Real rural wages have declined over time. This does not augur well for the repayment capacity of households.

NBFCs may need to resist the temptation of sharp growth and tighten their credit underwriting rules for unsecured loans. Growing the loan book may bring upfront profits but the real proof of the pudding is getting back the monies. High profitability today at the cost of quality is a sure path towards greater pain in the coming years.

Look What Our Research Analyst Has To Say...

Nifty for the past 2 Weeks traded sideways in a wide range of 19,600-19,250 rejection both edges twice and making the boundaries strong and solid and it will take good amount of effort for both bulls and bears to breach past the outer boundaries of the range. The Pivots for 3 Weeks is now in a very tight range and prices have closed above both the weeks Pivots and is in a strong closing position, hence the markets are bullishly positioned. Any dips towards 19,340-19,300 should be used as an opportunity to go long for an upside targets of 19,600 with a stop on close below 19,200. Any close below 19,200 will be a bearish breakdown and the index will head to test 18,800.

Anshul Jain

Sr. Research Analyst

LAKSHMISHREE
Gateway to your Financial Goals

Sector To Watch

HOTEL SECTOR

The outlook for chain-affiliated hotels in the upcoming festive season appears robust due to strong domestic demand, increased foreign tourist arrivals resulting from events like the G-20 Summit and the Cricket World Cup, and the upcoming wedding season. Investors are optimistic about a strong year in FY24E, with double-digit Average Room Rate (ARR) and Revenue per Available Room (RevPAR) growth. Domestic tourism is expected to drive hotel room demand, outpacing room supply in the medium term.

While short-term events will temporarily boost occupancies and ARR, sustained demand is expected due to resilient domestic tourism, potential foreign tourism revival, and recovering business travel. The industry is in the early-cycle expansion phase, with peak occupancies and ARRs expected in the next 18-24 months. The economics favor brand owners over hotel owners due to lower starting Return on Capital Employed (ROCE) for hotel owners, but ROCEs can rise significantly during upcycles. Hotel companies are likely to balance owned and asset-light properties for optimal growth.

Stock To Watch

Motherson Sumi

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 29,135 Cr	₹ 1.10	₹ 484 Cr	39.8%	61.7%

Motherson Sumi Wiring India (MSWIL), a joint venture between Sumitomo Wiring System and Motherson Group. It holds a dominant position in India's wiring harness industry, boasting a substantial market share exceeding 40%. In terms of financial performance, the company recently reported a strong quarter, partly attributed to an improved raw material to sales ratio achieved through strategic product mix adjustments and localization efforts.

In terms of business updates, the company has commenced supplying high-voltage harnesses to key players in the electric vehicle (EV) commercial sector. Furthermore, the utilization of newly added facilities has been gradually increasing, with one plant operating at approximately 55% capacity and another at around 80%. The company anticipates a capital expenditure of roughly Rs. 125 crores in the current year.

Jayaswal Neco

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 3,185 Cr	₹ 2.38	₹ 231 Cr	14.3%	48%

Jayaswal Neco Industries Limited (JNIL) is the flagship company of the NECO Group of Industries, originally founded in 1976 as a small-scale Iron Foundry. It has evolved into a prominent producer of Iron and steel castings and engages in the manufacturing and supply of various metal products. JNIL boasts India's largest production capacity for Iron and Steel castings, with 140,000 MTPA.

The company operates multiple divisions, including Steel, Automotive Casting, Construction Casting, Engineering Casting, and more. In terms of revenue, the Steel Segment dominates, contributing around 91.4% of the total revenue in FY22, followed by the Iron and Steel Castings Segment at approximately 8.5%.

THANK YOU

☺

Corporate Member of NSE, BSE, NCDEX, MCX, and Depository Participant with CDSL
SEBI Registered Investment Advisor - SEBI Registration No: SEBI Registered Investment Advisor - CIN No U74110MH2005PTC157942 |BSE-3281| INZ000170330 | NSE-12817| INZ000170330 | DP:IN-DP-CDSL-490-2008 | DPID:12059100 |Research Analyst:INH000004565| MCX-55910| INZ000170330 | NCDEX-01253| INZ000170330

Registered Office:

Unit No 407, IV Floor, Marathon Icon Marathon Nextgen Campus, Ganpat Rao Kadam Marg, Mumbai-400013
Opposite Peninsula Corporate Park, Lower Parel
Contact No: (022) 43431818

Corporate Office:

57, 2nd Floor Gandhi Nagar Sigra, Varanasi, UP- 221010
Contact No: (0542) 6600000

Regional Offices:

Kolkata, Ahmedabad, Chennai, Aurangabad, Jaipur, Kanpur, Delhi, Ujjain, Varanasi NichiBagh, Varanasi Maldahiya.

Disclaimer: ANALYST CERTIFICATION I, Mr. Anshul Jain B.com, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. 'Subscriber' is the one who has subscribed to the Research Reports in various forms including Research Recommendations, Research SMS Alerts/Calls, Fundamental and Technical Research calls, Investment Strategist Magazine, Research/market news etc through Lakshmishree Investment & Securities Private Limited. Subscriber may or may not be client of Lakshmishree Investment & Securities Pvt. Ltd.

Terms & conditions and other disclosures:

Lakshmishree Investment & Securities Pvt. Ltd. (hereinafter referred to as "LISPL ") is engaged in the business of Stock Broking, Depository Participant and distribution for third party financial products. (LISPL) will, at its discretion, provide its company research reports/news, results, and event updates/ sector report/monthly commentary/regular compendium, trading call, technical and derivatives reports (together "the reports") as also market news to subscribers either in the form of a written market commentary or research report sent in e-mail, form, SMS or through postal or courier service. A brief extract of the reports may also be sent, on enrolment, in SMS, e-mail form. This document has been prepared by the Research Division of LISPL and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without the prior permission of LISPL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security. The information contained in this report has been obtained from sources that are considered to be reliable. However, LISPL has not independently verified the accuracy or completeness of the same. Neither LISPL nor any of its affiliates, its directors or its employees accepts any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein. Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor. Either LISPL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication. LISPL is registered as Research Analyst under Securities and Exchange Board of India (Research Analysts) Regulations, 2014 LISPL submits that no material disciplinary action has been taken on us by any Regulatory Authority impacting Equity Research Analysis activities. LISPL or its research analysts or its associates or his relatives do not have any financial interest in the subject company. LISPL or its research analysts or its associates or his relatives do not have actual / beneficial ownership of one percent or more securities of the subject company at the end of the month immediately preceding the date of publication of the research report. LISPL or its research analysts or its associates or his relatives do not have any material conflict of interest at the time of publication of the research report. LISPL or its associates might have received compensation from the subject company in the past twelve months. LISPL or its associates might have managed or co-managed public offering of securities for the subject company in the past twelve months or mandated by the subject company for any other assignment in the past twelve months. LISPL or its associates might have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months. LISPL or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months. LISPL or its associates might have received any compensation or other benefits from the subject company or third party in connection with the research report. LISPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. LISPL or its analysts did not receive any compensation or other benefits from the subject Company or third party in connection with the preparation of the research report. LISPL or its Research Analysts do not have any material conflict of interest at the time of publication of this report. It is confirmed that Mr. Anshul Jain B.com, Research Analyst of this report has not received any compensation from the companies mentioned in the report in the preceding twelve months Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. The Research analysts for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The research analysts for this report has not served as an officer, director or employee of the subject company. LISPL or its research analysts have not engaged in market making activity for the subject company Our sales people, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. LISPL and its associates, their directors and employees may (a) from time to time, have a long or short position in, and buy or sell the securities of the subject company or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company or act as an advisor or lender/borrower to the subject company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

ANSHUL JAIN

Digitally signed by ANSHUL JAIN
Date: 2023.09.02 12:48:02 +05'30'