

Market Macroscopic

June 2024

Investment Products



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Dear Investors,

The results of the 2024 general elections were significantly different from the exit polls, which came as a negative surprise. This outcome suggests that coalition partners may play a larger role in shaping policy measures, alarming the equity markets and causing a fall in frontline indices by 5-8% on counting day.



Political developments may cause near term volatility but I believe that the long-term structural growth story remains intact. I had recently authored an article for the Livemint highlighting a nascent mega trend which I term the “equitisation of investments” ([link here](#)). This in turn is being driven by three other megatrends: India’s rising middle class, growing income levels and India’s youthful demographics. Despite some bumps along the way, I expect this megatrend to be a fundamental shift that will sustain over the next decade.

Turning our attention to the markets, there are concerns that the narrow victory may compel the government to introduce populist measures, potentially negatively impacting the markets. Varun Lohchab, Head of Research of Institutional Equities at HSL, has released a report addressing these concerns and discusses the impact on different sectors. The report highlights that India has historically managed to grow real GDP by ~6-8% under coalition governments.

India’s growth outlook remains strong, as reflected in the FY24 GDP growth of 8.2%, compared to 7.0% in FY23. Inflation is also trending lower, with the RBI projecting inflation of 4.5% in FY25e, down from 5.4% in FY24. The IMD predicts an above-average monsoon for FY25 (106% of LPA), which should provide relief to the struggling rural economy. Additionally, Q4FY24 corporate earnings surprised positively, with Nifty earnings growth at 12%, well ahead of street estimates.



Domestic liquidity remains strong, as reflected in the highest ever SIP flows of over Rs. 20,000 Cr in April 2024. I expect retail flows to continue strengthening in the long run, as the equitization of savings is still in its nascent stage in India. This trend is likely to sustain over the next decade or longer, given the young demographics, rising middle class, increasing salary levels, and growing financial literacy.

In this edition of Macroscopic, you will find our regular articles:

- **Equity Outlook:** Summary of global and domestic equity markets, risks, and opportunities.
- **Fixed Income:** Outlook: Updates on key inflation data, central bank actions, and bond market movements.
- **Reading Room:** Some of the interesting essays we read this month.
- **Research Spotlight:** A selection of some of our best research.
- **Crossword:** A fun and exciting brainteaser to challenge yourself.

As always, we aim to keep investors well-informed, enabling them to make prudent investment decisions and enhance their financial well-being, especially in turbulent times like now.

Warm regards,

Dhiraj Relli
MD and CEO – HDFC Securities

Equity outlook by Varun Lohchab, Head of Research, Institutional Equities at HDFC Securities:

We recently published our take on general election results in the report titled **“Negative electoral results would lead to valuation correction”**. Considering that NDA forms the Government, we believe that the slim majority will lead to shift in policy measures. Presented below are some excerpts from the report:



What does it mean for markets?

- This corrective phase to continue as valuations in domestic cyclicals are stretched compared to historical levels, making risk-reward unattractive.
- A pro-growth budget will soothe investors' nerves and any disappointment could result in a further sharp correction.

What lies ahead for the economy? Our expectations:

- The government would remain fiscally prudent.
- The thrust on infrastructure creation and reforms will continue, albeit at a slower pace.
- Some reallocations of expenditure to social schemes in the upcoming budget. We may witness a slowdown in private capex in case of any political uncertainty.

What lies ahead for markets?

- As highlighted in our note 'Valuation of Indices', the overvaluation of indices was already unsustainable, and the election results only acted as a trigger for them to correct.
- We don't expect any significant earnings downgrade due to this election outcome but PE multiples may contract.
- India has historically been able to grow real GDP by ~6-8% under coalition governments.

Sectoral Impact:

- Defence and railway sectors to be negatively impacted by shift in government spending. The stocks in the sector are already at stretched valuations
- Infrastructure and capital goods may be negatively impacted as , government may need to prioritise “offering direct benefits to the masses” over “infra spends”
- Consumer staples could benefit from increased govt spends on rural revival

We also published our quarterly strategy note, **the “Quarterly Flipbook”**. Key excerpts from the same:

Earnings Recap

- Aggregate revenue/PAT grew by 6%/ 22% YoY and 4%/13% QoQ across the HSIE coverage (~226 stocks)
- The 5-year CAGR for annual revenue/PAT between FY19 to FY24 was 11%/17%
- The large-cap category was slightly higher in Q4 than that of midcap as large-cap earnings grew by 22.5% YoY while midcap grew by 19.2% YoY
- About 82% of incremental YoY earnings growth in Q4FY24 came from only four sectors—lending financials (48%), auto (18%), energy (8%) and pharma (8%). On the other hand, staples, IT, energy, chemicals, metal and power sectors disappointed
- The key stocks contributing to the YoY earnings growth (77% of the total) were Tata Motors, Axis Bank, SBI, Coal India and ONGC

Macro Economic Updates:

Global Macro summary: Although the global recession risks have diminished, the inflation concerns continue to endanger global financial stability. The IMF, World Bank, and rating agencies have forecasted a slowdown in global growth, citing rising geopolitical conflicts, financial stress, persistent inflation, and reduced international trade as key risks. In addition to this there is a potential debt crisis which is looming over the global economic landscape

Amid all this pessimism, India is seen by international agencies and top rating firms as an emerging economic superpower of the world. The RBI in its latest monthly economic review said, "There is a growing optimism that India is on the cusp of a long-awaited economic take-off." India is positioned to remain the fastest-growing major economy, demonstrating resilience amid geopolitical challenges and supply chain pressures. The OECD has projected global growth at 3.1% in 2024, and 3.2% in 2025. For 2024, India is projected to grow at 6.6%, fastest among the major emerging markets. China is projected to grow at 4.9% and Brazil at 1.9%. Among advanced economies, US, UK and Euro area growth is projected at a mere 2.6%, 0.4% and 0.7% respectively.

United States: Despite stubborn inflation and elevated interest rates, the US economy has proved resilient so far in CY'24. However, the Federal Reserve (Fed, the US central bank) will continue to try to cool the economy and reduce inflation. The target for inflation is 2% and it is currently above 3%, which is still too high.

US GDP Growth: The US economy grew at a slower pace in Q1'CY24 than initially reported, primarily reflecting softer consumer spending on goods. US GDP increased by 1.3% annualized in Q1'FY24 lower than the previous estimate of 1.6%. The economy's main growth engine — personal spending — advanced 2.0%, versus the previous estimate of 2.5%.

The numbers underscore a loss of momentum to start 2024 after continual upside surprises in 2023. High interest rates, waning pandemic-era savings and slower income growth are some of the key factors weighing on American households and businesses.

US Inflation higher than expected:

- U.S. inflation tracked sideways in Apr-24 coming in at 3.4% YoY, that suggests the elevated pace of price increases could last longer than expected and casts doubt on how soon the US Fed will be able to cut interest rates.
- The personal consumption expenditures (PCE) price index increased 0.3% last month, according to Commerce Department's Bureau of Economic Analysis, matching the unrevised gain in Mar-24.
- In the 12 months through April, the PCE price index rose 2.7% after advancing 2.7% in March. Economists polled by Reuters had forecasted it to climb 0.3% on the month and 2.7% on a YoY basis. The PCE price index is one of the inflation measures tracked by the U.S. central bank for its 2% target. Monthly inflation readings of 0.2% over time are needed to bring inflation back to target.

US Consumer spending and retail sales remain robust:

- Personal income slowed to 0.3% MoM in April, down from March 2024's 0.5% gain, but in line with market expectations.
- Accounting for inflation and taxes, real personal disposable income declined -0.1% MoM in April 2024, reversing all of last month's gain.

- Personal consumption expenditures rose by 0.2% MoM. This is lower than the revised 0.7% recorded in March (0.8% reported earlier), and below market expectations (0.3%). Spending in real terms slid by -0.1% MoM – a pullback from 0.4% growth in March 2024. The decline in real spending reflected declines in both goods (-0.4%) and services (-0.5%) outlays.
- The advance estimates of adjusted U.S. retail and food services sales for Apr-24, were \$705.2 billion, practically unchanged ($\pm 0.4\%$) from the previous month but were up 3% ($\pm 0.5\%$) above Apr-23.

US flash Composite PMI Output : The headline S&P Global Flash US PMI Composite Output Index rose sharply from 51.3 in Apr-24 to 54.4 in May-24, its highest since Apr-22. The 3.1 index point rise (the largest gain for 15 months) signals a marked acceleration of growth midway through the second quarter. Output has now risen continually for 16 consecutive months, with May's acceleration contrasting with the slowdown seen in March and April.

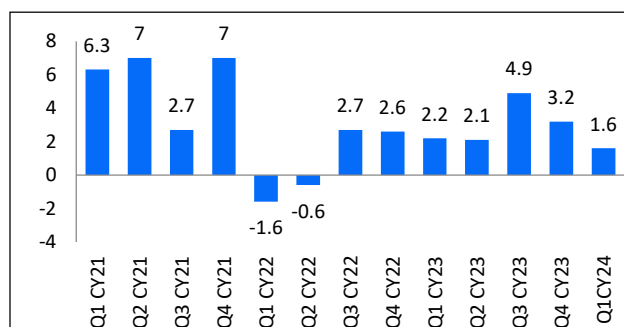
US Monetary policy meeting: The US FOMC kept key policy rates unchanged at its April 30-May 1st meeting. The US FOMC noted “lack of further progress” on inflation towards its 2% objective and noted that the FOMC does not expect to reduce rates till it has greater confidence that inflation is moving towards its target. Federal Reserve Chairman Jerome Powell in an interview ruled out a rate hike as its next step and played down stagflation concerns.

US treasury yield movement: The yield on the 10-year note ended May 31, 2024 at 4.51% (compared to 4.59% as of May 2, 2024), the 2-year note ended at 4.89%, and the 30-year at 4.65%. U.S. Treasury yields decline after data showed U.S. inflation stabilized in April (3.4%), in line with expectations, suggesting the Fed's rate cut plans later this year remained intact.

US unemployment rate

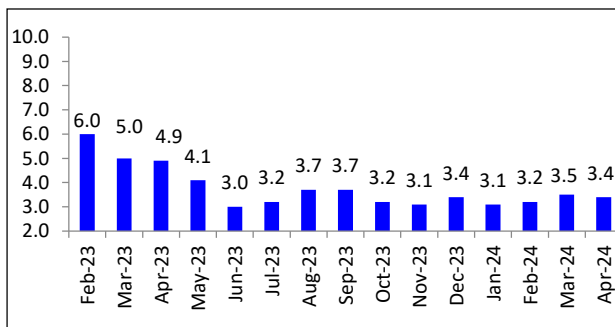
The Bureau of Labor Statistics (BLS) reported that the U.S. economy added 175,000 jobs in April 2024, the slowest jobs gain in six months and below market expectations. The unemployment rate ticked up from 3.8% to 3.9%. Average hourly earnings eased as well, with the metric falling below 4% year over year (YoY) growth for the first time since June 2021. The job data showed moderation in wage growth and no. of openings, timely initial claims for unemployment insurance data do not suggest a material weakening in the labor market at this juncton.

US GDP increased at an annualized 1.6% QoQ, far lower than consensus expectation of 2.4%



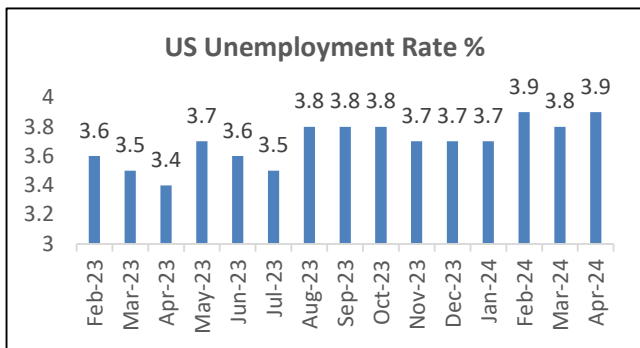
Source: US Bureau of Labor Statistics

US CPI decreased marginally to 3.4% in April 2024 marginally higher than expectations of 3.4%



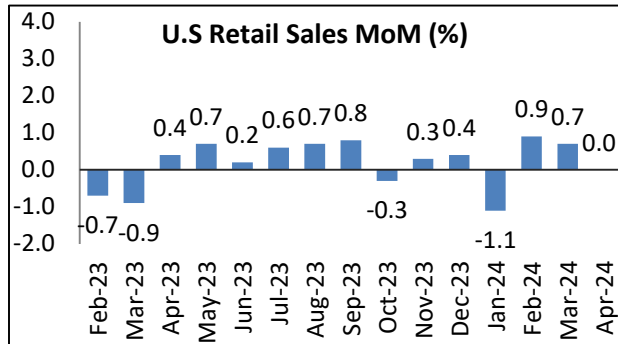
Source: tradingeconomics.com

US unemployment increased in April after a surprise fall in March



Source: tradingeconomics.com

US Retail Sales MoM (%) : US Retail sales remained unchanged MoM compared to previous month's increase of 0.7%



Source: tradingeconomics.com

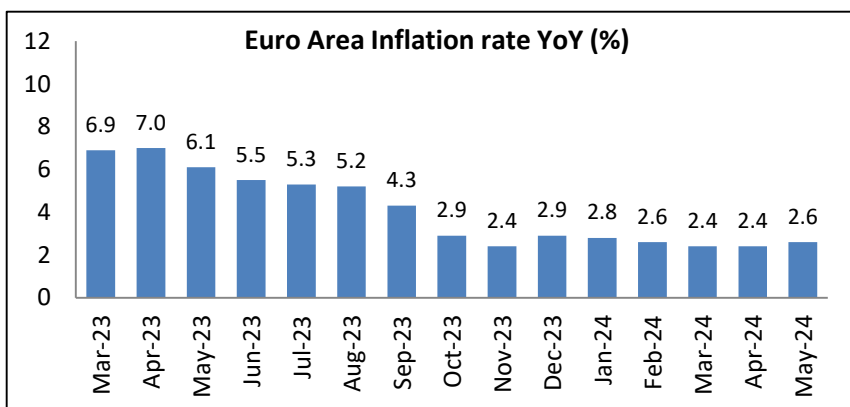
Europe:

Euro zone: Eurozone inflation accelerates in May.

The Eurozone Harmonized Index of Consumer Prices (HICP) increased at an annual pace of 2.6% in May, higher than a 2.4% growth in April, as per Eurostat. The data beat the market expectations for a 2.5% acceleration in the reported period.

- The Core HICP inflation rose to 2.9% YoY in the same period, as against April's 2.7% rise while coming in above the estimates of 2.8%.
- On a monthly basis, the bloc's HICP rose 0.2% in May vs. a 0.6% increase in April. The core HICP inflation came in at 0.4% MoM in the same period when compared to a 0.7% growth seen previously.
- The European Central Bank (ECB) cut its benchmark rate (Deposit rate) by 25 basis to 3.75% from a record high of 4% in its June monetary policy meeting.

Euro Area Inflation increased to 2.6% in May 2024



Source: tradingeconomics.com

China:

- IMF has revised China's CY'24 GDP forecasts higher.
- The International Monetary Fund (IMF) projected China's economic growth at 5%, up from its earlier forecast of 4.6%, but cautioned it of a slowdown to contract to 3.3% by 2029 due to ageing and slower productivity growth. The 5% growth projection by the IMF is in line with the target set by the Chinese government for the world's second-largest economy which is grappling with a slowdown triggered by the crippling property sector crisis and industrial over capacity. Chinese manufacturing activity unexpectedly contracted in May, purchasing managers index data showed, as an initial boost from bumper stimulus measures by Beijing now appeared to be running out of steam. Manufacturing PMI came in at 49.50 in May, data from the National Bureau of Statistics showed. The reading was weaker than expectations of 50.5, and contracted from the 50.4 seen in April. A reading below 50 indicates contraction, with the manufacturing PMI now shrinking after two months on expansion.
- China's non-manufacturing PMI came in at 51.1 in May, weaker than expectations of 51.5, and April's reading of 51.2. This saw overall business activity grow at a slower pace in May, with the Chinese composite PMI at 51.0, down from 51.7 in the prior month. The composite PMI was back at its weakest level since February, after advancing somewhat over the past two months.

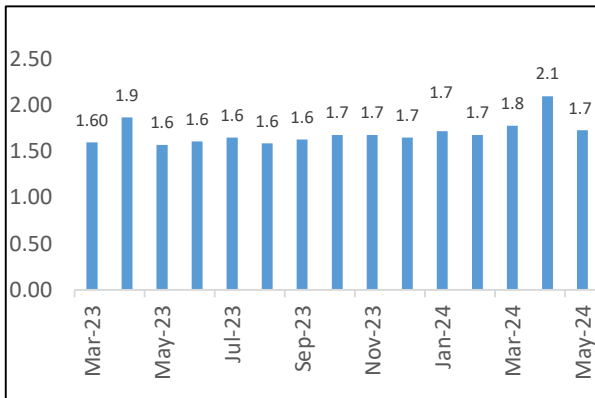
India:

Economic growth indicators remain strong even as inflation stays within the RBI's target band

- **Indian GDP:** India's GDP grew at 7.8% on an annual basis in the last quarter (Q4) of the FY24. Further, the Centre now estimates the overall growth rate of FY24 to be 8.2%, the Ministry of Statistics and Program Implementation (MOSPI) data showed.
- **GST collections stays strong:** Goods and Services Tax revenue in May (up 10% YoY) neared Rs. 1.73 lakh crore, the 5th highest monthly collection since the new indirect tax regime started in Jul-17 mainly driven by economic buoyancy, sustained domestic demand and stricter compliance, indicating robust first quarter growth after record collections of Rs. 2.10 lakh crore in April.
- **India Inflation eases:** India's CPI inflation eased to 4.83% in April compared to 4.85% in March. India's headline retail inflation hovered around 5.14% on average in the last six months from November 2023-April 2024, within the central bank's policy band of 2-6%. However, during the same time, the food index stayed above 7%. The softer headline inflation rates have not translated into lower food prices. For FY25, the central bank projects inflation at 4.5%, still outside the medium-term target.
- India's April Wholesale Price Index (WPI)-based inflation surged to a 13-month high of 1.26% in April, surpassing the estimated 1% mark. Comparatively, March wholesale inflation was 0.53%, outperforming the forecast 0.20%. January's wholesale inflation stood at 0.27%.
- In its June MPC meeting, RBI's MPC decided to keep the repo rate unchanged at 6.5% with a 4:2 vote. The MPC also kept the policy stance unchanged and decided to remain focused on "withdrawal of accommodation" with a 4:2 vote.
- The **Index of Industrial Production (IIP)** in India grew 4.9% in March against a downward revised 7% increase in the previous month. Economists surveyed by Reuters had forecast IIP to grow at 5.9% in March.

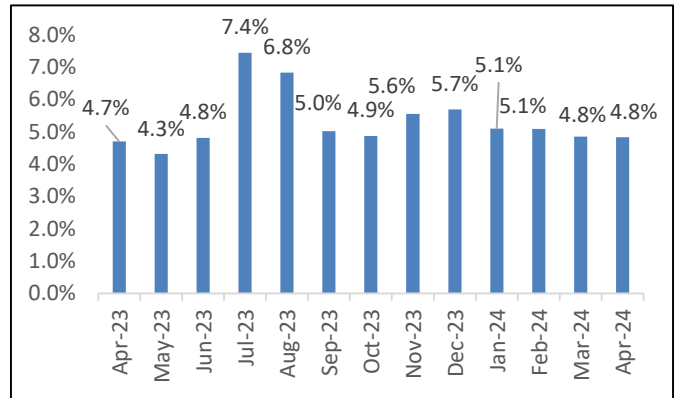
- Early arrival of monsoon:** The monsoon set in over Kerala on 27 May, two days ahead of its normal date, and has advanced into most parts of Northeast India, according to the India Meteorological Department (IMD). According to Weather scientists cyclone Remal, which swept through West Bengal and Bangladesh, redirected the monsoonal flow towards the Bay of Bengal, potentially contributing to the early onset of the monsoon over the northeast.
- Bank loan growth:** The banking sector reported a higher credit growth in the first month of the fiscal 2025, led by an increase in advances to the agriculture sector, the Reserve Bank of India (RBI) said. On a y-o-y basis, non-food bank credit grew 15.3% in April, compared to a growth of 16.2% a year ago. In absolute terms, bank non-food credit stood at Rs 159.55 lakh crore in April compared to Rs 138.38 lakh crore in April 2023.

GST Collection (Rs Lac cr)



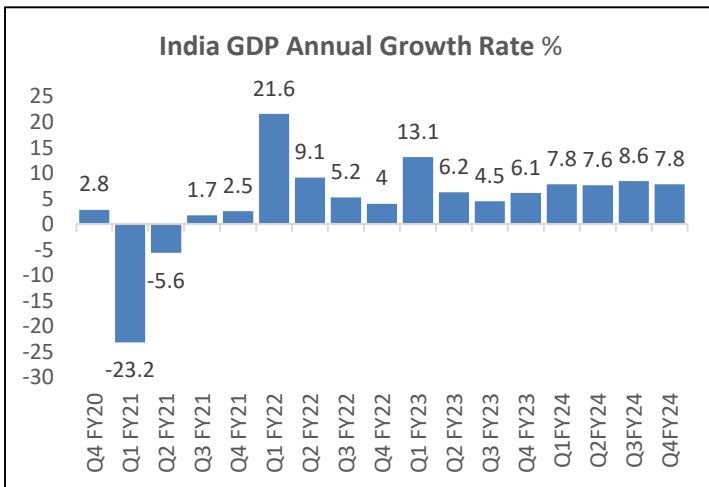
Source: Tradingeconomics.com

India's CPI Inflation monthly trend



Source: <https://tradingeconomics.com/india/indicators>

India's GDP Exceeds Estimates, Grows At 8.2% In FY24 And 7.8% In Q4

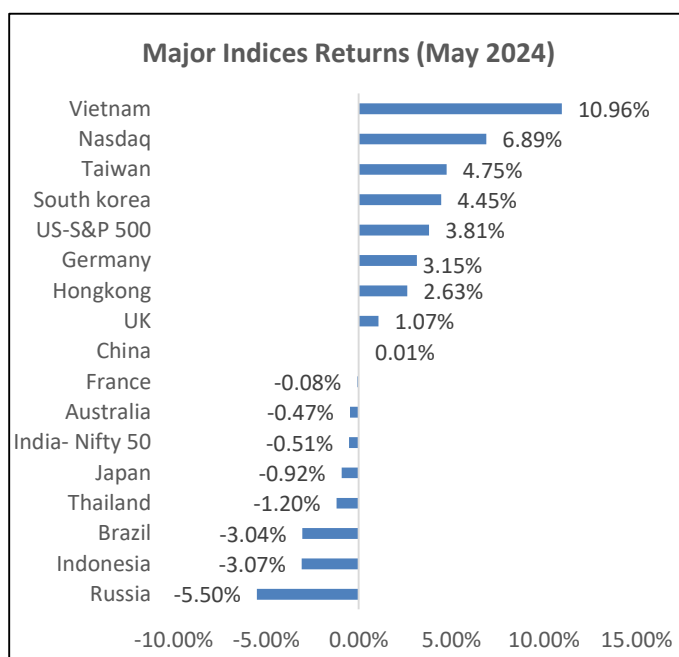


Source: tradingeconomics.com

Global Equities Markets:

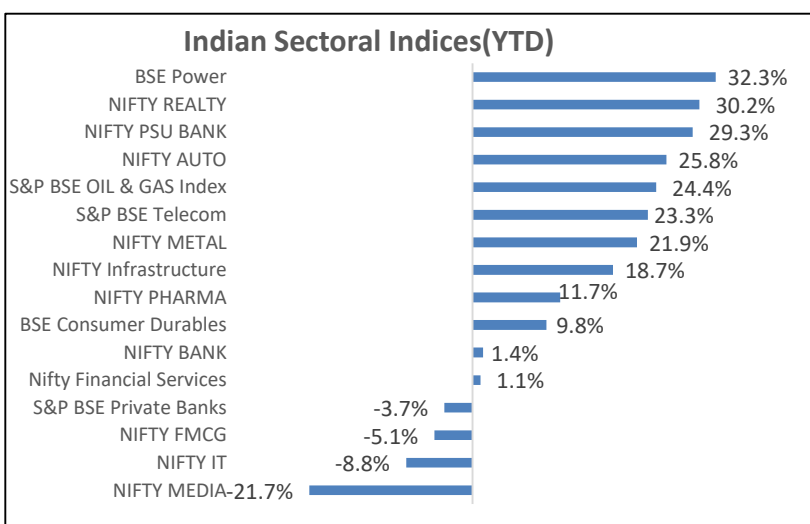
In the month of May 2024, global equity markets witnessed strength across developed and emerging markets. Vietnam, Nasdaq and Taiwan were among the best performing markets gaining by 10.9%, 6.8% and 4.7% respectively (local currency). The positive sentiments across most global equity markets were driven by healthy Q1'CY24 set of earnings, inflation moderation and rising expectations of a rate cut by central banks globally.

In US, the slowdown in labor market, slackening economic growth and softening consumer spending are giving indications of rate cut in CY'24. As we write this report, the US 10-year Treasury yields are trading near a two-month low of 4.289%, while the 2-year yields slipped to 4.731%.



Indian Equities:

- The benchmark Nifty-50 closed down -0.3% in May 2024 after hitting new record highs during the month. The markets largely traded in positive territory during the month before giving up those gain towards the end of the month ahead of the parliamentary election results. The broader markets were even stronger on account of healthy Q4'FY24 earnings and optimistic management commentaries across sectors.
- BSE Midcap index increased by 1.7% while and BSE Smallcap indices declined by (-0.1%) during May 2024 mainly on account of heightened volatility towards the end of the month.
- From sector perspective, leading gainers were BSE Capital Goods (+11.2%), BSE Industrials (+9.1%) and BSE Power (+6.6%) while BSE IT index was down (-2.6%). The sector remains impacted by slowing demand conditions and weak global macros.
- PSU Banks, Oil & Gas and Realty indices have led the rally so far in CY24 while media, IT, FMCG and Private bank have underperformed the markets.



Flows:

DIIIs remained net buyers of Indian equities in cash market for the tenth consecutive month in May 2024 with net purchases of Rs. 55,733 cr in May 2024 following on from purchases of Rs 44,186 crore in April 2024. FIIs continued to be net sellers in May 2024 with net sales of equities in cash of Rs. 42,214 cr in addition to net sale of Rs. 35,692 cr in cash.

IPO Review:

May '24 witnessed reasonable primary market activity as 5 companies came out with an IPO to raise an aggregate amount of Rs. 9,606 cr. In terms of listing gains, TBO TK Ltd listed with gains of 55% followed by Indegene Ltd's listing gains of 44.9%

Name of the company	Size of IPO (Rs. Cr)	Issue close Date	IPO price (Rs./share)	Listing date open (Rs./share)	% Inc/ (Dec) from issue price	Overall Subscription (times)	QIP Subscription (times)
Indegene Limited	1,842	8-May-24	452.0	655.0	44.9%	70.3	192.7
TBO Tek Limited	1,551	10-May-24	920.0	1,426.0	55.0%	86.7	125.5
Aadhar Housing Finance Limited	3,000	10-May-24	315.0	315.0	0.0%	26.8	76.4
Go Digit General Insurance Limited	2,615	17-May-24	272.0	286.0	5.1%	9.6	12.6
Awfis Space Solutions Limited	599	27-May-24	383.0	421.0	9.9%	108.2	117.0

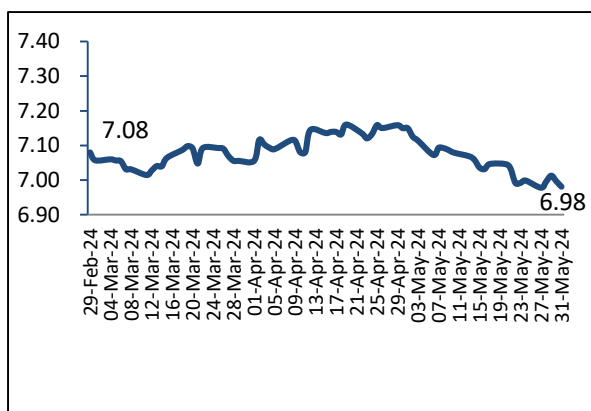
Key Risks:

- Indian Parliamentary election outcome: Contrary to all exit poll projections, the BJP did not secure a clear majority in the Lok Sabha in the General Elections of 2024, which came as a negative surprise. This outcome implies that coalition politics have returned after a ten-year gap. While we expect that the NDA will form government and deliver a pro-growth budget which will soothe investors' nerves and help stabilise markets in the near term, any disappointment could result in a further sharp correction.
- Geopolitical conflicts and its resultant impact on global supply chains and commodity prices remains major risks to the global financial markets including India.
- Persistent high inflation and delay in anticipated global rate cut cycle could result in significant global economic slowdown.
- Major slowdown in exports.
- Lower than expected monsoon.

India 10-Year G-Sec Yield Movement

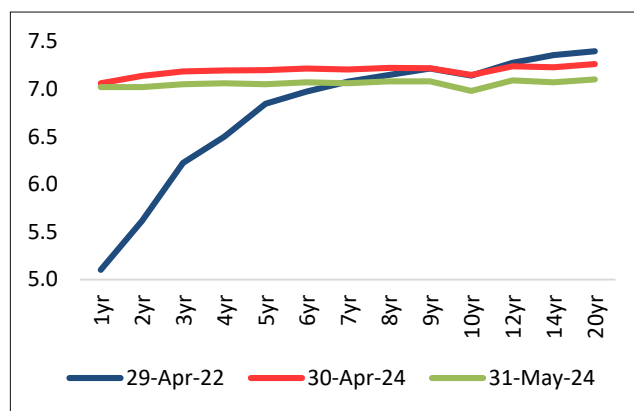
- 10yr G-sec yield fell by 17 bps to 6.98% in May'24 from 7.15% in Apr'24. During the month, 10yr yield traded in the range of 6.98-7.15%.
- Decline in 10yr G-sec yield was supported by fall in US yields and RBI's bumper dividend announcement leading to expectations of improved fiscal deficit/reduction in gross market borrowings.
- RBI announced reduction in T-bill borrowings by Rs 60,000 cr for Q1 FY25.
- Government in consultation with RBI also conducted auctions for buyback of G-secs. RBI accepted ~Rs 23,000 cr against notified amount of Rs 2.0 lakh cr across 4 auctions.
- Domestic bond market demand supply conditions are likely to be further supported with beginning of passive FPI flows through JP Morgan global bond indices from 28th Jun'24. Market expects passive flows of around \$25 bn over next 10 months till Mar 2025.

India's 10yr G-sec yield movement in last 3 months



Source: investing.com

India's G-sec Yield Curve continues to remain flat



Source: Bandhan MF, Bloomberg

RBI maintains status quo on policy rate and stance

- RBI's MPC decided to keep the repo rate unchanged at 6.5% with a 4:2 vote.
- The MPC also kept the policy stance unchanged and decided to remain focused on "withdrawal of accommodation" with a 4:2 vote.
- Real GDP growth for FY25 is projected at 7.2% (revised up from 7.0%).
- CPI inflation for FY25 is projected at 4.5%.
- RBI reiterated that it would continue to be nimble and flexible in liquidity management through main and fine-tuning operations in both repo and reverse repo.

RBI's Dividend Transfer at a record high: Key Highlights

- RBI has transferred a dividend of Rs 2.1 lakh cr to Centre vs. Rs 87,416 cr in FY23, up 141% YoY.
- The dividend approved for FY24 (to be accounted for in FY25 fiscal accounts) is higher than the market estimate of ~Rs 1 lakh cr.
- In the interim FY25 budget, dividend from RBI and PSU banks was budgeted at Rs 1.02 lakh cr.



- **Fiscal Impact:** Higher than estimated dividend is expected to shore up non-tax revenues for the government. As a result, the fiscal deficit as a % of GDP, in the absence of extra expenditures, could reduce by 30-40 bps.
- **Borrowing:** This could lead to lower gross market borrowing by the government in case extra dividend is not utilized for additional spending (current borrowing target at Rs 14.1 lakh cr for FY25).

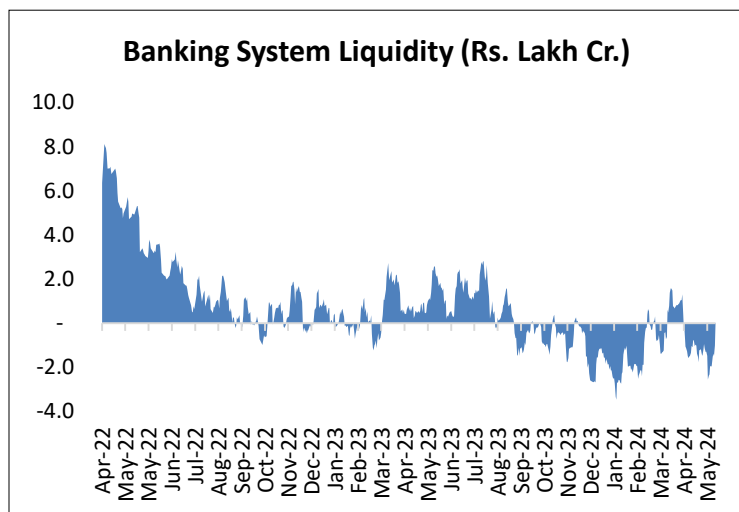
Tracking India's Economic Pulse

- **GDP Growth:** India's real GDP grew by 7.8% YoY in Q4 FY24 vs. 8.6% in Q3 FY24. GDP growth for full year FY24 stood at 8.2% vs. 7.0% in FY23. Nominal GDP growth moderated to 9.6% in FY24 vs. 14.2% in FY23.
- **GST Collection:** India's GST collection rose by 10% YoY to Rs 1.73 lakh cr in May'24, easing from record high of Rs 2.1 lakh cr in Apr'24.
- **Fiscal Deficit:** India's FY24 fiscal deficit stood at 5.6% of GDP vs. revised estimate of 5.8% of GDP announced in FY25 interim budget.
- **PMI:** India's manufacturing PMI fell to a 3-month low of 57.5 in May'24 from 58.8 in Apr'24. India's services PMI also moderated to a 5-month low of 60.2 in May'24 from 60.8 in Apr'24.
- **Core Sector Performance:** India's eight core sector industries grew by 6.2% YoY in Apr'24 vs. 6.0% in Mar'24.

Banking System Liquidity Dynamics

- During May'24, average liquidity deficit stood at ~Rs 1.38 lakh cr vs. average surplus of ~Rs 20,250 cr in Apr'24.
- Tight banking system liquidity kept yields at the short end of the yield curve elevated in May'24.

India's banking system liquidity (Rs cr)



Source: RBI

Global Perspective – US Yield, Fed’s Stance, and Inflation

US Treasury Yield Movement:

- US 10yr yield fell by 18 bps to 4.50% in May'24 from 4.68% in Apr'24.
- US 10yr yield remained volatile during May'24 and traded in the range of 4.34-4.64%.
- 10yr yield fell to ~4.3% during mid of May'24 with fall in US CPI inflation. However, post hawkish remarks by US Fed officials, yields rose again in 2nd half of the month.

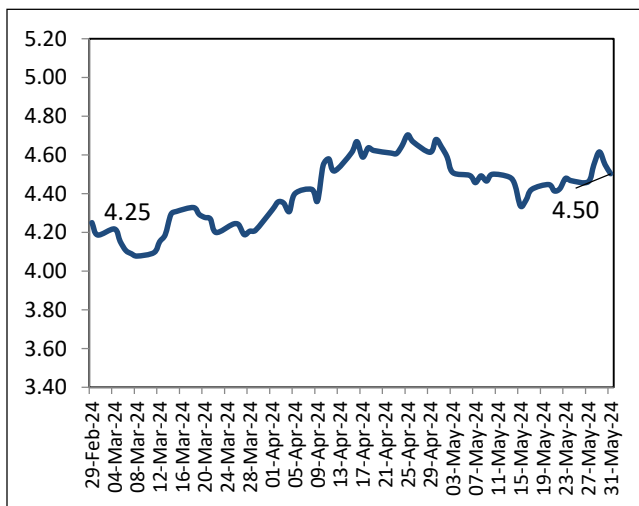
US Fed’s FOMC Meeting:

- US Fed kept Fed Funds rate unchanged at 5.25-5.50% for 6th consecutive meeting in May'24, in line with market expectations.
- Minutes of May'24 FOMC meeting revealed that disinflation process could take longer than previously expected, and some participants are open to further rate hikes if required.
- On the inflation front, the Fed members noted several upside risks to inflation emanating from geopolitical events and mentioned pressure that inflation was having on consumers.
- **Rate Cut Expectations:** As per CME FedWatch, market is currently pricing in a first rate cut in Sep'24. Cumulative 50 bps rate cut is priced in CY24.

US Inflation Overview:

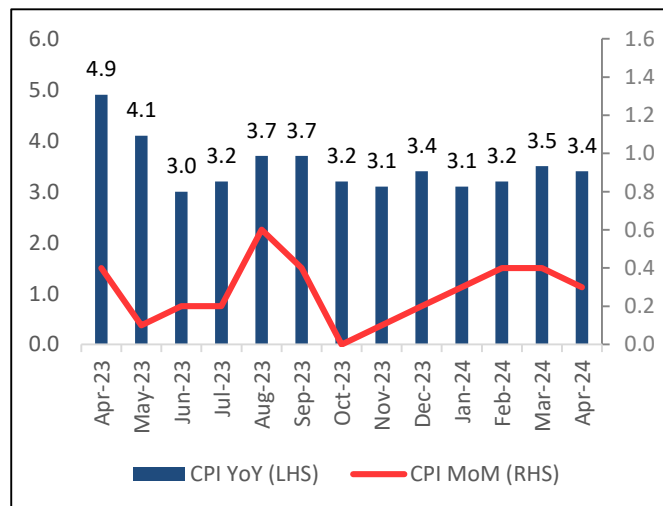
- US CPI inflation came in line with market expectations of 3.4% YoY in Apr'24 and was lower than 3.5% in Mar'24.
- Core CPI inflation (ex-food and energy) eased to 3.6% YoY in Apr'24 from 3.8% in Mar'24.

US 10 yr treasury yield movement in last 3 months



Source: Investing.com

US CPI inflation monthly trend

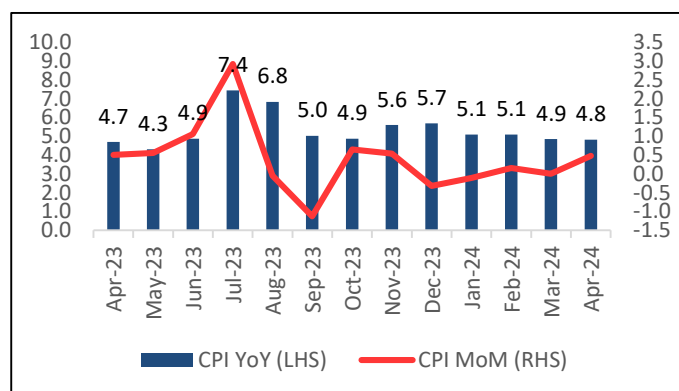


Source: US Bureau of Labor Statistics

India's Inflation Scenario

- India's CPI inflation remained largely unchanged at 4.83% YoY in Apr'24 vs. 4.85% in Mar'24.
- Pressure from elevated food inflation was offset by a moderation in core inflation and a decline in fuel inflation.
- Core inflation (ex-food and fuel) moderated to 3.25% YoY in Apr'24 from 3.3% in Mar'24 with broad-based moderation across sub-categories.
- A favourable monsoon in the upcoming south-west monsoon season is likely to support a moderation in food prices.

India's CPI inflation monthly trend



Source: MoSPI

Outlook

Interest Rates and Liquidity:

- The RBI remains in a wait and watch mode for now to assess domestic developments like the monsoon performance, food inflation, and the new budget before moving on rates.
- Moreover, despite the governor's emphasis that monetary policy decisions are driven primarily by domestic considerations, we think that any rate cut action could end up being aligned with the timing of the Fed's rate cut cycle to limit financial market volatility.
- We continue to see the possibility of a rate cut in Q4 2024.
- We do not see a change in fiscal pressures and expect the government to remain on its path of fiscal consolidation.
- Even if, the new government increases expenditures in the upcoming budget (on rural sector, social welfare schemes etc.), the cushion from healthy tax collections and high RBI dividend is likely to support the fiscal math.

Yield Curve Dynamics:

- In the near term, a flat yield curve is anticipated. Short-end yields remain elevated due to tight liquidity conditions and interest rate pause from RBI. Longer end of the yield curve remains supported by favourable demand-supply dynamics.
- Over the medium term, we might observe a steeper yield curve, influenced by rate cut from RBI and easing of banking system liquidity.

Investment Avenues:

- Given the flatness in the yield curve, 3-5yr segment of the yield curve appears promising, offering attractive risk-adjusted opportunities with moderate interest rate risk.
- Tactical allocation to long duration can be considered to benefit from expected interest rate cuts.

Driving Factors:

- Going forward, various factors such as global monetary policy decisions, geo-political situations, commodity prices, bond demand-supply scenario, and domestic growth-inflation dynamics will be pivotal in shaping the fixed income landscape.

Fixed Income Outlook

Investment Opportunity in India's 40yr G-sec

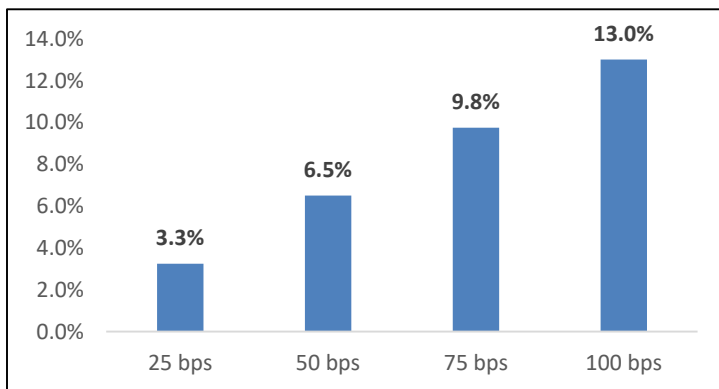
Positives for domestic bond market in the near to medium term

- **Positive interest rate regime:** Peak in interest rate cycle with rate cuts from RBI expected in H2 FY25.
- **Favourable demand-supply dynamics:** Improved fiscal position and large FPIs flows through inclusion of G-secs in global bond indices.
- **Robust macros:** Resilient economic growth momentum and moderate CPI inflation.

Above factors call for an opportunity to invest in 40yr G-sec providing exposure to high duration.

India's 40yr G-sec yield closed at 7.16% as of 31st May 2024.

Probable capital gains in 40yr G-sec with fall in yield



Note: Capital gains shown above are absolute; Modified duration of 13 years considered for 40yr G-sec

Disclaimer: Above calculations are shown for illustration purpose only. Actual capital gains will be subject to market risks and volatility.

Tactical allocation to India's 40yr G-sec can be considered to benefit from the expected fall in yields in the near to medium term.

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INSTITUTIONAL RESEARCH

BUY

Brigade Enterprises

Brigade Enterprises Ltd (BEL) posted strong Q4FY24 presales of 2.7msf (+15/+60% YoY/QoQ), valued at INR 22.4bn (+50/+47% YoY/QoQ), with average realisation touching an all-time high of INR 7,968 per sq. ft (+36/+21% YoY/QoQ). Moreover, for FY25, BEL has a robust launch pipeline of 12.6msf with a GDV potential of INR 130bn, largely in Bengaluru as BEL expects that the Bengaluru market has a huge potential.

CMP (as on 30 May 2024) INR 1,235

Target Price INR 1,400

Strong Q4FY24 presales of 2.7msf with average realisation touching an all-time high of INR 7,968 per sq. ft.

Strong cash position of INR 20.7bn, a robust business development pipeline, and a healthy balance sheet

BEL is planning for 3msf of new office projects in Bengaluru, Hyderabad, and Chennai, and 0.5msf of hotels. This will entail a new capex of INR 20bn over FY25-28. Given BEL's strong cash position of INR 20.7bn, a robust business development pipeline, and a healthy balance sheet, we remain constructive.

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INSTITUTIONAL RESEARCH

BUY

State Bank of India

SBIN reported its best-ever quarterly profits on the back of strong fee income traction, healthy loan growth, and stable NIMs. Strong loan growth (15.8%YOY) came in across asset classes with corporate book also gaining traction. Deposit growth (~11% YoY) lagged loan growth with CASA% (39.5%) being stable on the back of seasonal pick-up in current accounts. At 75%, the LDR continued to be comfortable for SBIN to sustain growth levels.

CMP (as on 9 May 2024) INR 820

Target Price INR 970

Best ever quarterly profit, Strong loan growth (15.8%YOY)

Asset quality improved further with gross slippage run-rate moderating alongside strong recoveries/woffs

Asset quality improved further with gross slippage run-rate moderating alongside strong recoveries/w-offs. With bulk of the deposit re-pricing behind, we expect a slight moderation in margins assuming a turn in the rate cycle during H2FY25. We tweak our estimates to account for higher growth and lower credit costs.

HSIE Results Daily

BUY

Cummins

Cummins India Ltd (CIL) reported yet another exceptional quarter with revenue/EBITDA/APAT surpassing our estimates by 5/16/36%. Domestic business grew 28% YoY whilst exports declined 18% on the back of geopolitical issues. CIL maintained a 2x real GDP growth guidance band of 12-16% over the longer term with a positive margin bias. Data centre demand remains robust, touching ~10% in the revenue mix. Industrials and distribution businesses continue to aid growth. Going ahead, with the CPCB 4+ implementation from 1st Jul 2024, CIL expects a positive margin bias, though full impact will be visible from Q3FY25 depending on competitors' pricing actions.

CMP (as on 30 May 2024) INR 3,597
Target Price INR 4,328

Another exceptional quarter & expects a positive margin bias.

Multiple tailwinds, namely, stringent emission norms, capex cycle Recovery etc.

We have recalibrated our estimates higher to factor in better growth and margins. The company has multiple tailwinds, namely, stringent emission norms, capex cycle recovery, adoption of alternative fuels with lower carbon footprint, revival in industrials, and support for manufacturing policies.

17 May 2024 | 4QFY24 Results Review

ADD

Mankind Pharma

Mankind Pharma (Mankind) reported 42% YoY EBITDA growth, led by 19% YoY sales growth (India formulation up 11% YoY and exports grew 230% YoY) and gross margin expansion (+262 bps YoY). India growth was largely led by 15% YoY growth in the chronic segment (outperformance in CVS, anti-diabetics, and CNS) and recovery in gynaecology. Export grew 230% YoY on US one-off opportunity. In FY25, Mankind expects – (1) Steady growth in India (volume to outperform IPM by 1.3-1.4x, 3.5-4% new launches and 4-5% price-led growth), (2) mid-teen growth in consumer healthcare, (3) export business to see mid-teen growth, (4) gross margin to sustain at ~69%, and (5) EBITDA margin guidance raised to 25-26%

CMP (as on 16 May 2024) INR 2,092
Target Price INR 2,360

India growth was largely led by 15% yoy growth in the chronic segment and recovery in gynaecology.

The company is looking for India-focused M&As

The company is looking for India-focused M&As (enabling resolution to raise INR 75 bn through QIP, increase the investment limit to INR 105 bn, and increase limits for borrowing to INR 125 bn). Factoring in Q4 and FY24 performance, we have marginally tweaked our EPS estimates for FY25/26E.

The Reading Room section of the Macroscopic contains a collection of interesting articles we read this month. We hope you will find the articles as interesting as we did.

1. Near-term global economic outlook cautiously optimistic as vulnerabilities remain

- According to the UN the global economic outlook has improved since Jan-24, with major economies avoiding a severe downturn. The world economy is now projected to grow by 2.7% in 2024, instead of 2.4% forecasted earlier by the UN, on the back of better-than-expected performance of the United States economy and some improvement in the outlook for several large emerging economies.
- The modest gain in the growth momentum is partly offset by the downward revisions of the growth outlook for the European Union, Africa, and Western Asia. On balance, the near-term economic outlook is only cautiously optimistic as economic vulnerabilities remain, amid persistently high interest rates, continuing geopolitical tensions, and increasing climate risks.
- Inflation has declined in most countries since their peaks in 2023, mainly due to declining international energy and food prices, and weakening second-round effects on a range of business costs. Concerns remain that geopolitical tensions and disruptions in trade routes could increase inflationary pressures.
- During the first four months of 2024, labour markets in most of Europe, Japan and North America remained tight, with unemployment rates reaching record lows and some sectors experiencing continuing labour shortages.



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https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP_2024_MYU_KeyMessages.pdf

2. **'It Is Desolate': China's Glut of Unused Car Factories - The New York Times (nytimes.com)**

- China has more than 100 factories with the capacity to build close to 40 million internal combustion engine cars a year. That is roughly twice as many as people in China want to buy, and sales of these cars are dropping fast as electric vehicles become more popular.
- Last month, for the first time, sales of battery-electric and plug-in gasoline-electric hybrid cars together surpassed those of gasoline-powered cars in China's 35 largest cities. Dozens of gasoline-powered vehicle factories are barely running or have already been mothballed.



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- The Electric car sales in China are still growing. But the pace of growth has halved since last summer, as consumer spending has faltered in China because of a housing market crisis. China's electric vehicle companies are still investing heavily in new factories which is leading to overcapacity in electric vehicle manufacturing, although less than for gasoline-powered cars.
- This is leading to price cuts across the sectors, key players like Li Auto, Tesla & BYD undertook a price cut this month. Volkswagen and General Motors have also lowered E.V. prices in China this year.

['It Is Desolate': China's Glut of Unused Car Factories - The New York Times \(nytimes.com\)](#)

3. Why India's Modi failed to win outright majority

- Indian PM Narendra Modi has won a third consecutive term in a much tighter general election than anticipated. His Bharatiya Janata Party (BJP) fell short of a majority and will head a coalition government.
- The BJP's significant drop in seats may be linked to joblessness, rising prices, growing inequality and a controversial army recruitment reform, among other things. His ambitious slogan "Ab ki baar, 400 paar," aiming for more than 400 seats for his NDA alliance, may have backfired, with such a massive majority raising fears of constitutional changes among the poor.
- India has a history of chaotic coalition governments, although some in the early 1990s and 2000s played a significant role in implementing economic reforms. If the BJP forms the government, it will need to adopt a more consultative and deliberative approach. This dependency makes it vulnerable to collapse if allies feel neglected.
- The verdict marks a surprising revival for the Congress Party-led INDIA opposition alliance, sharply diverging from both exit polls and pre-election surveys. There is more hope for them ahead. The BJP holds about a third of India's 4,000- plus state assembly seats and has lost to regional parties before. Over the next 14 months, five states are set for elections. With contests in Maharashtra, Jharkhand, and Haryana this year, the BJP could face substantial competition. Delhi's upcoming election may pose challenges, while Bihar in October presents a regional hurdle.



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<https://www.bbc.com/news/articles/c977q8gl5q2o>

4. F.D.A. Approves Sickle Cell Treatments, Including One That Uses CRISPR

- In December last year the US Food and Drug Administration approved the first gene editing therapy ever to be used in humans, for sickle cell disease, a debilitating blood disorder caused by a single mutated gene. The agency also approved a second treatment using conventional gene therapy for sickle cell that does not use gene editing.
- The gene editing treatment, called Exa-cel and using the brand name Casgevy, was jointly developed by Vertex Pharmaceuticals of Boston and CRISPR Therapeutics of Switzerland. It uses CRISPR, the Nobel Prize-winning gene editing tool, to snip patients' DNA.
- For the 100,000 Americans with the disease, most of them Black, the approvals offer hope for finally living without an affliction that causes excruciating pain, organ damage and strokes. Getting either therapy will be difficult, and expensive.
- The obstacles to treatment are myriad: an extremely limited number of medical centers authorized to provide it; the requirement that each patient's cells be edited or have a gene added individually; procedures that are so onerous that not everyone can tolerate them; and a multimillion-dollar price tag and potential insurance obstacles.



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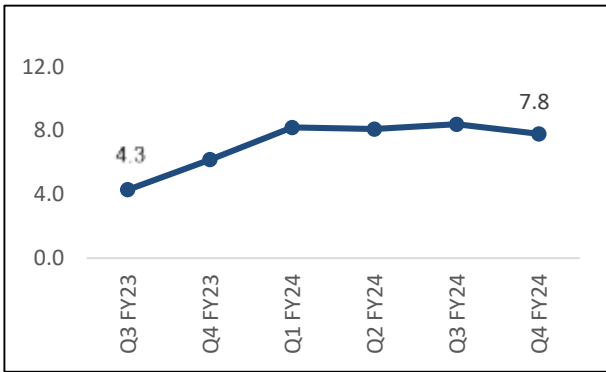
[F.D.A. Approves 2 Sickle Cell Treatment, One Using CRISPR Gene Editing - The New York Times \(nytimes.com\)](https://www.nytimes.com/2023/12/14/health/genetics/crispr-sickle-cell-treatment.html)

Index Performance (30-Apr-24)

Scheme Name	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y	10 Y
NIFTY 50	-1.9	-0.3	2.5	11.9	21.5	16.5	13.1	13.6
S&P BSE SENSEX	-1.9	-0.7	2.0	10.4	18.1	15.4	12.5	13.2
S&P BSE 500	-1.7	0.6	4.9	17.2	33.0	21.7	16.5	16.5
S&P BSE Mid-Cap	-1.5	1.7	8.9	25.1	57.9	36.0	25.3	23.2
S&P BSE Small-Cap	-1.5	-0.1	4.5	17.1	54.7	33.8	26.0	26.0
NIFTY AUTO	-2.0	4.2	14.7	33.4	64.7	42.1	30.7	23.4
NIFTY BANK	0.0	-0.8	6.2	10.1	11.0	17.5	11.3	9.3
Nifty Financial Services	-0.6	-0.6	6.4	8.3	11.7	14.8	9.2	10.0
NIFTY FMCG	-2.4	-0.3	0.2	2.1	6.0	18.2	15.4	12.6
NIFTY Infrastructure	-2.1	1.1	7.2	31.6	58.6	33.3	26.0	21.0
NIFTY IT	-4.3	-2.5	-14.1	-0.6	10.4	4.5	6.1	14.9
NIFTY MEDIA	-1.4	-1.2	-8.8	-18.6	6.5	-4.5	2.0	-3.2
NIFTY METAL	-2.1	6.0	22.7	38.6	64.9	35.0	23.5	27.3
NIFTY NEXT 50	-2.2	4.1	14.5	40.6	60.4	31.6	21.4	19.4
NIFTY PHARMA	-1.7	-0.9	-1.1	15.8	48.1	22.1	10.2	17.3
NIFTY PRIVATE BANK	-0.3	-1.3	4.8	4.7	7.8	15.6	9.0	6.7
NIFTY PSU BANK	0.4	-2.9	6.6	46.5	83.0	69.2	44.9	17.8
NIFTY REALTY	-0.4	4.7	12.0	42.9	112.5	57.3	44.7	29.1
S&P BSE Consumer Durables	-1.8	-0.5	7.2	16.5	34.3	20.2	18.0	17.3
S&P BSE OIL & GAS Index	-3.1	-1.2	3.5	39.4	59.2	24.0	20.2	12.7
S&P BSE Power Index	-1.2	6.6	16.8	56.5	101.2	34.9	39.8	30.8
S&P BSE Telecom	-0.9	3.3	14.0	30.9	67.3	30.7	27.5	22.4

Data as on 31th May 2024. Returns less than 1 year are in absolute terms and greater than 1 year are CAGR
Source: ACE MF

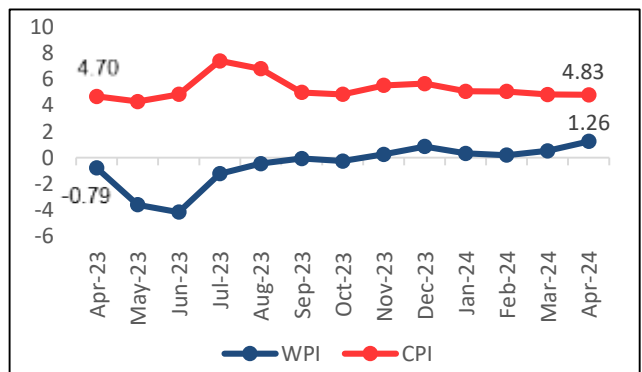
GDP Growth (% YoY):



	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24
GDP Growth (% YoY)	4.3	6.2	8.2	8.1	8.6	7.8

Source : MoSPI

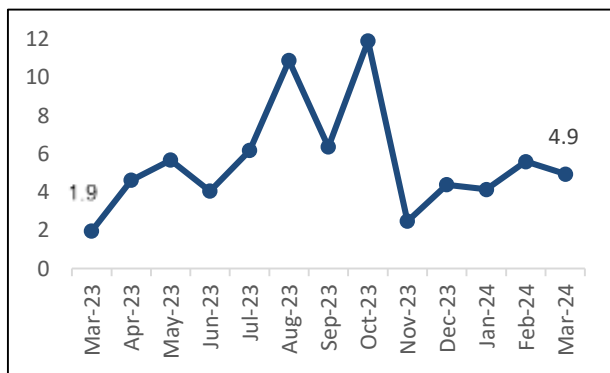
Inflation (% YoY):



	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24
WPI (% YoY)	-0.79	-1.23	-0.26	0.33	1.26
CPI (% YoY)	4.70	7.44	4.87	5.10	4.83

Source : MoSPI

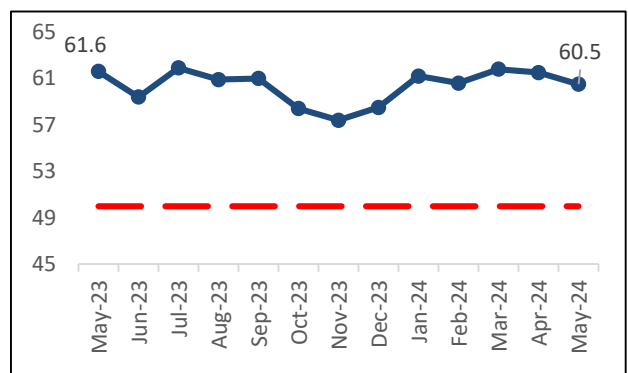
Industrial Production Growth (% YoY):



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
IIP (% YoY)	1.9	4.0	6.4	4.4	4.9

Source : MoSPI

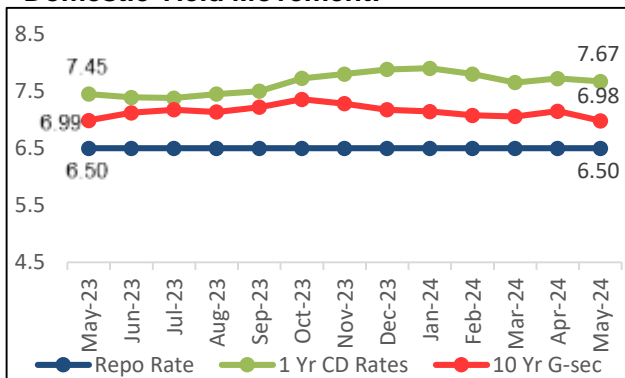
India Composite PMI:



	May-23	Aug-23	Nov-23	Feb-24	May-24
Composite PMI	61.6	60.9	57.4	60.6	60.5

Source : S&P Global

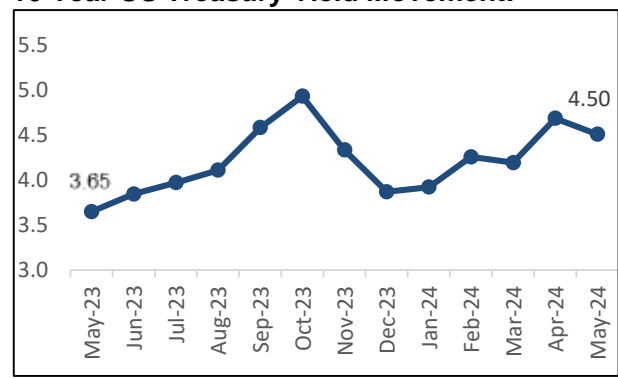
Domestic Yield Movement:



	May-23	Aug-23	Nov-23	Feb-24	May-24
Repo	6.50	6.50	6.50	6.50	6.50
1 Yr CD	7.45	7.45	7.80	7.80	7.67
10 Yr Gsec	6.99	7.14	7.28	7.08	6.98

Source : investing.com, RBI, Bloomberg

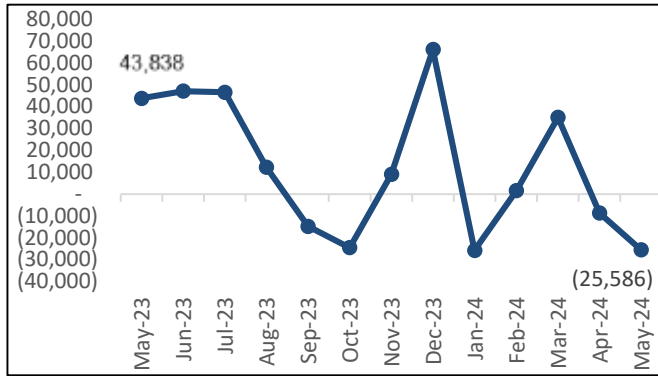
10 Year US Treasury Yield Movement:



	May-23	Aug-23	Nov-23	Feb-24	May-24
US 10Yr Yield	3.65	4.11	4.33	4.25	4.50

Source : investing.com

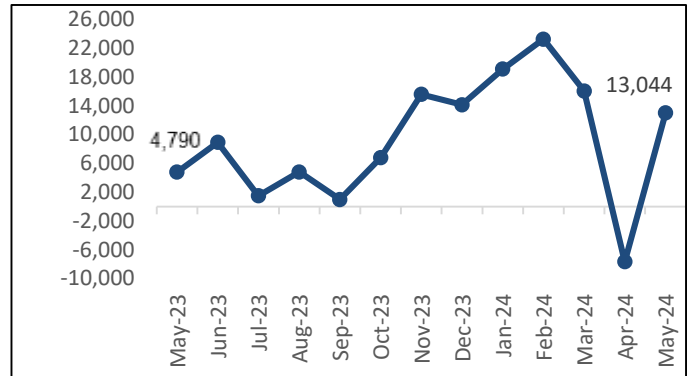
FII Equity Flows (Rs cr):



	May-23	Aug-23	Nov-23	Feb-24	May-24
FII Equity Flows	43,838	12,262	9,001	1,539	-25,586

Source : NSDL

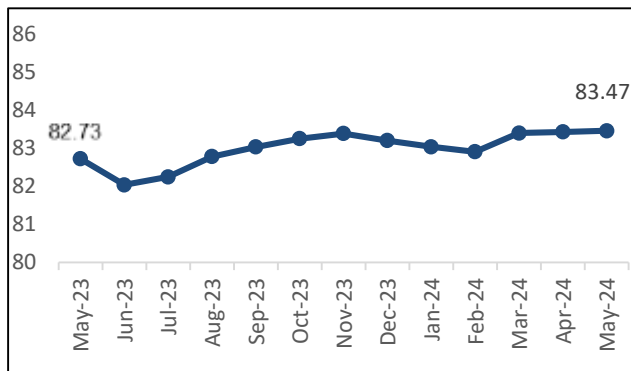
FII Debt Flows (Rs cr):



	May-23	Aug-23	Nov-23	Feb-24	May-24
FII Debt Flows	4,790	4,800	15,597	23,281	13,044

Source : NSDL

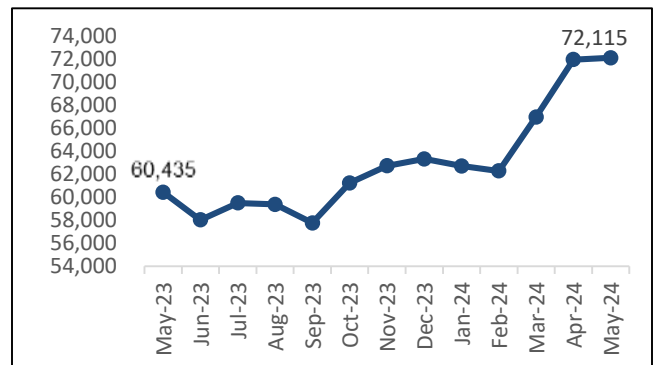
USD vs. INR:



	May-23	Aug-23	Nov-23	Feb-24	May-24
\$ vs. ₹	82.73	82.79	83.39	82.91	83.47

Source : Bloomberg

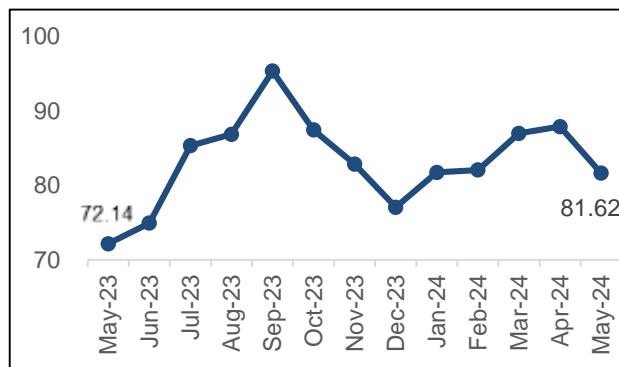
Gold Price (Rs/10gm):



	May-23	Aug-23	Nov-23	Feb-24	May-24
Gold Price	60,435	59,374	62,725	62,282	72,115

Source :IBJA

Brent Crude (USD/Barrel):



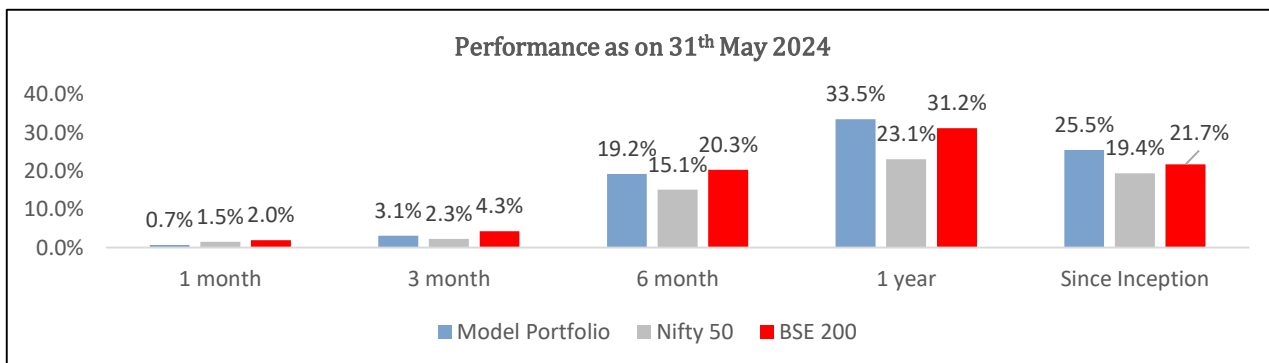
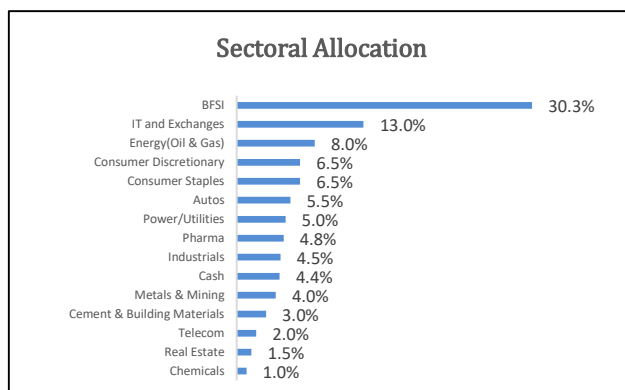
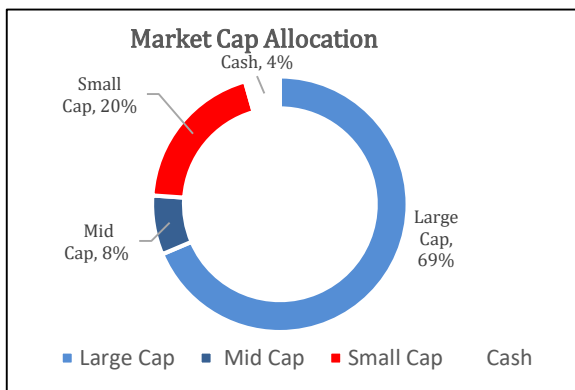
	May-23	Aug-23	Nov-23	Feb-24	May-24
Brent Crude	72.14	86.83	82.83	82.03	81.62

Source : investing.com

Portfolio Details:

Stock	%
HDFC Bank	11.6%
ICICI Bank	6.5%
Infosys	6.0%
Reliance Industries	5.0%
Cash	4.4%
Axis Bank	3.5%
State Bank of India	3.0%
Larsen & Toubro	3.0%
Maruti Suzuki India	2.5%
ITC	2.5%
Britannia Industries	2.0%
Tata Consultancy Services	2.0%
Tata Steel	2.0%
Dalmia Bharat	2.0%
PG Invt	2.0%
Bharti Airtel	2.0%
Federal Bank	1.5%
Crompton Consumer	1.5%
PVRInox	1.5%
Orient Electric	1.5%
Ashoka Buildcon	1.5%
Sobha	1.5%
Sun Pharmaceutical Industries	1.5%
Cipla	1.5%
SBI Life	1.2%
Mahindra & Mahindra	1.0%

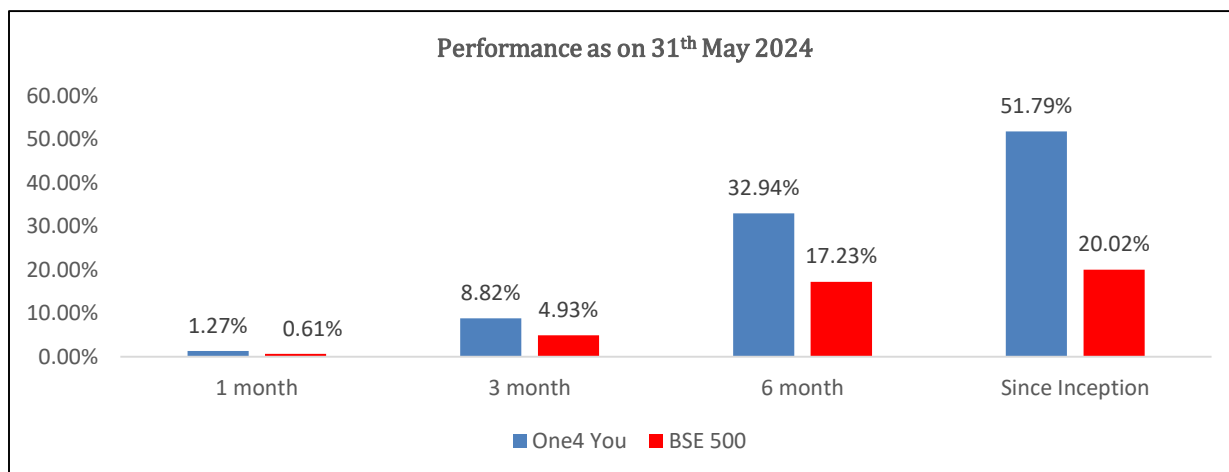
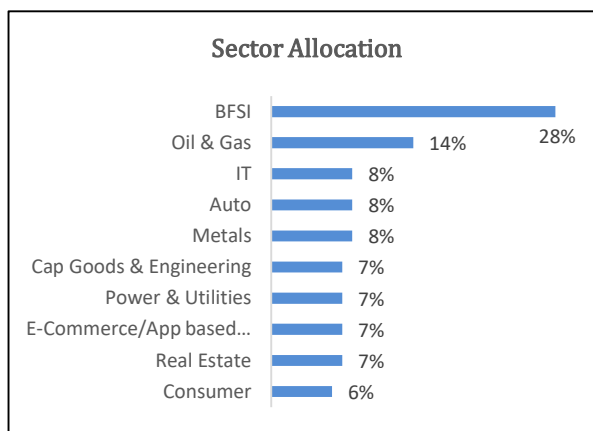
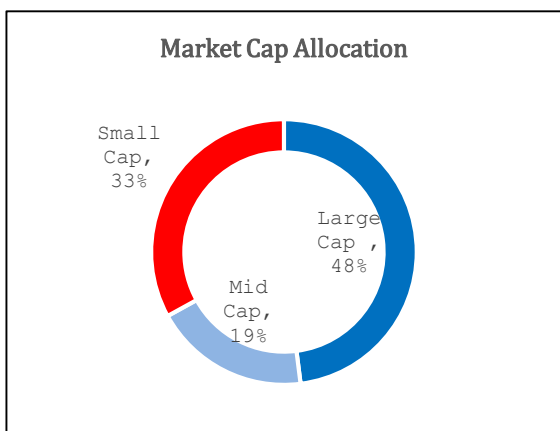
Stock	%
Hero Motorcorp	1.0%
Motherson Sumi Wiring India	1.0%
Canfin Homes	1.0%
Aavas Financiers	1.0%
ICICI Prudential LI Co. Ltd	1.0%
Hindustan Unilever	1.0%
United Spirits	1.0%
TV18 Broadcast	1.0%
Vmart	1.0%
HCL Technologies	1.0%
Mphasis	1.0%
Tech Mahindra	1.0%
MCX	1.0%
Teamlease	1.0%
Oil & Natural Gas Corp	1.0%
GAIL India	1.0%
Mahanagar Gas	1.0%
Hindalco Industries	1.0%
SAIL	1.0%
Stylam Industries	1.0%
Aarti Industries	1.0%
NTPC	1.0%
PGCIL	1.0%
Cesc	1.0%
Torrent Pharma	1.0%
Dr Reddy's Laboratories	0.8%



Details as of 31st May, Returns less than 1 year are absolute, more than 1 year are annualized. Inception date – 28-Feb-20,

Portfolio Details:

Stock	%
Tech Mahindra	8.0%
Tata Steel	8.0%
Sobha Developers	7.0%
Info Edge (India)	7.0%
MCX	6.0%
Indraprastha Gas	6.0%
GAIL (India)	8.0%
Dabur Limited	8.0%
ICICI Bank	8.0%
Federal bank	6.0%
Hero MotoCorp	8.0%
Crompton Greaves Consumer Electricals	6.0%
CESC	7.0%
Ashoka Buildcon	7.0%



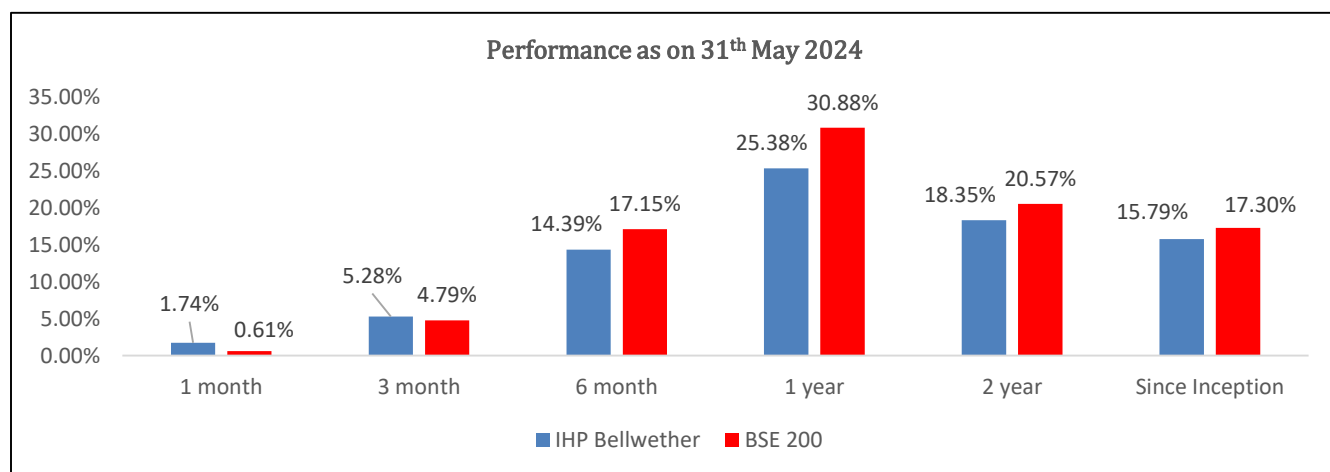
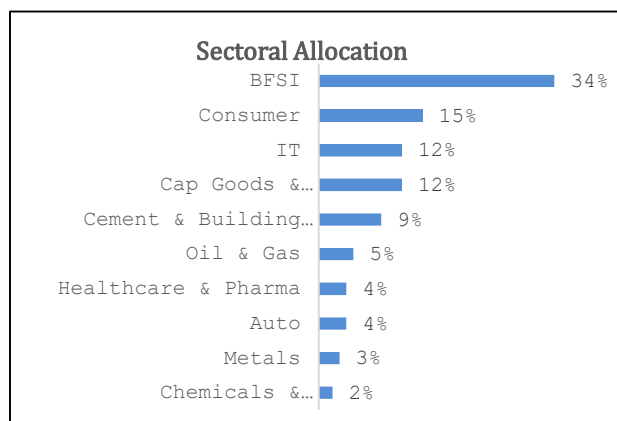
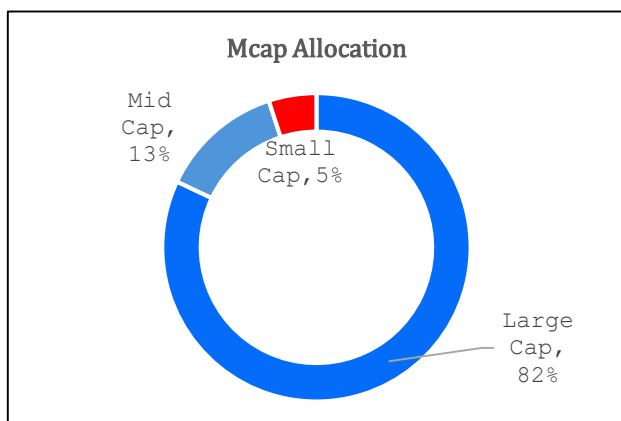
Details as of 31st May 2024, Returns in absolute terms. Inception date – 13-Sep-23,

India Horizons - Bellwether Portfolio

Portfolio Details:

Stock	%
SBI	6.0%
SBI Life Insurance	6.0%
ITC	5.0%
ICICI Bank	5.0%
Ultratech Cement	5.0%
Kotak Bank	5.0%
Marico	5.0%
United Spirits	5.0%
Reliance Industries	5.0%
Bank Bees	5.0%
L&T	5.0%
Maruti Suzuki	4.0%

Stock	%
Havells	4.0%
Kajaria Ceramics	4.0%
Infosys	4.0%
LTI Mindtree	4.0%
TCS	4.0%
Dr Reddy's Laboratories	4.0%
Bharat Forge	3.0%
Muthoot Finance	3.0%
Nippon Life AMC	3.0%
KNR Construction	3.0%
Sudarshan Chemicals	2.0%
Jio Financial Services	1.0%



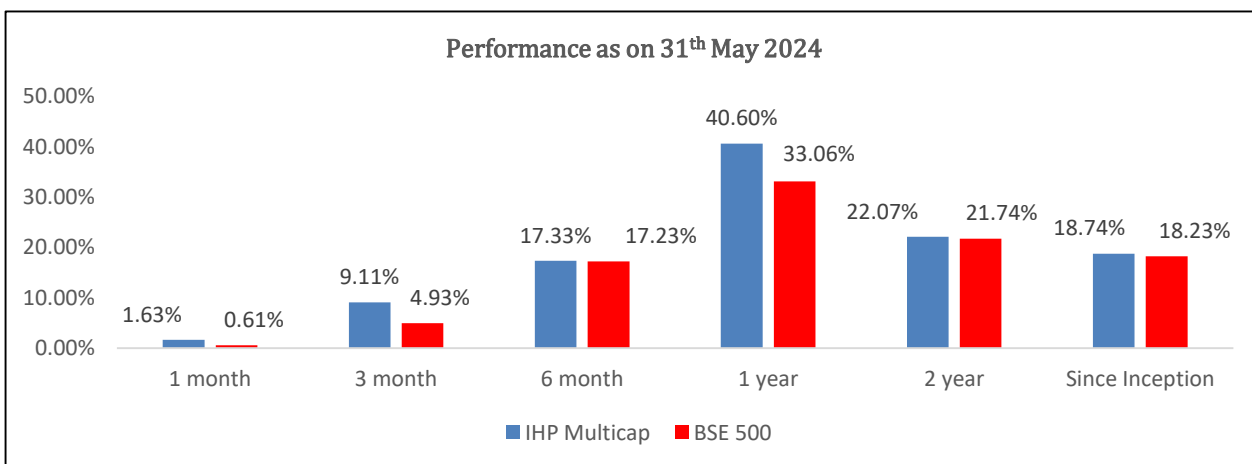
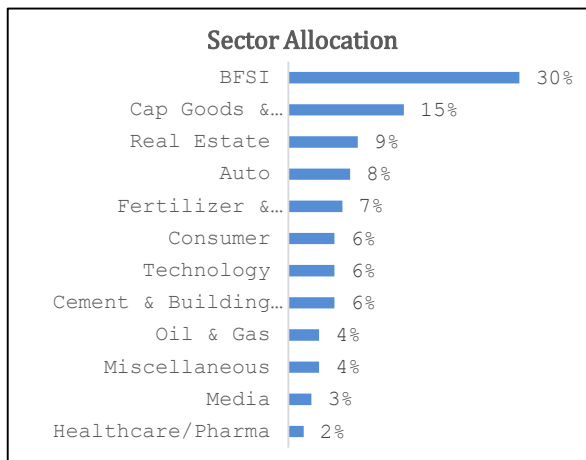
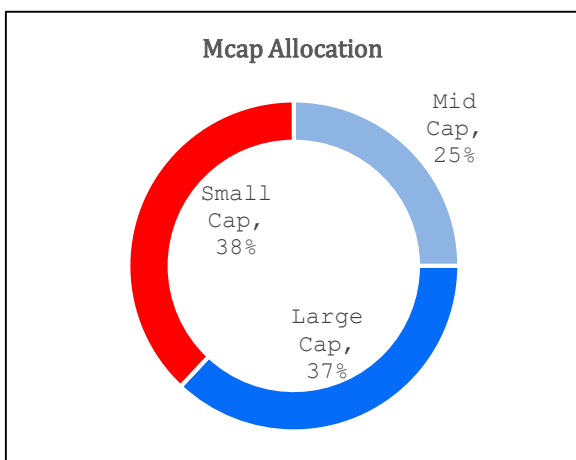
Details as of 31st May 2024, Returns less than 1 year are absolute, more than 1 year are annualized. Inception date – 6-Apr-21
Returns are provisional

India Horizons - Multicap Portfolio

Portfolio Details:

Stock	%
Phoenix Mills	5.0%
Axis Bank	5.0%
Kotak Bank	5.0%
KEI Industries	5.0%
SBI	5.0%
Navin Fluorine	5.0%
Supreme Industries	4.0%
Uno Minda	4.0%
L&T	4.0%
Gabriel India	4.0%
Angel One	4.0%
Reliance Industries	4.0%
Godrej Properties	4.0%
ICICI Pru Life	4.0%

Stock	%
Bank of Baroda	4.0%
Birla Corporation	3.0%
Infosys	3.0%
PNC Infra	3.0%
Somany Ceramics	3.0%
Bank Bees	3.0%
Indiamart Intermesh	3.0%
Crompton Consumer	3.0%
GR Infra	3.0%
Saregama India	3.0%
Voltas	3.0%
Atul	2.0%
Laurus Labs	2.0%

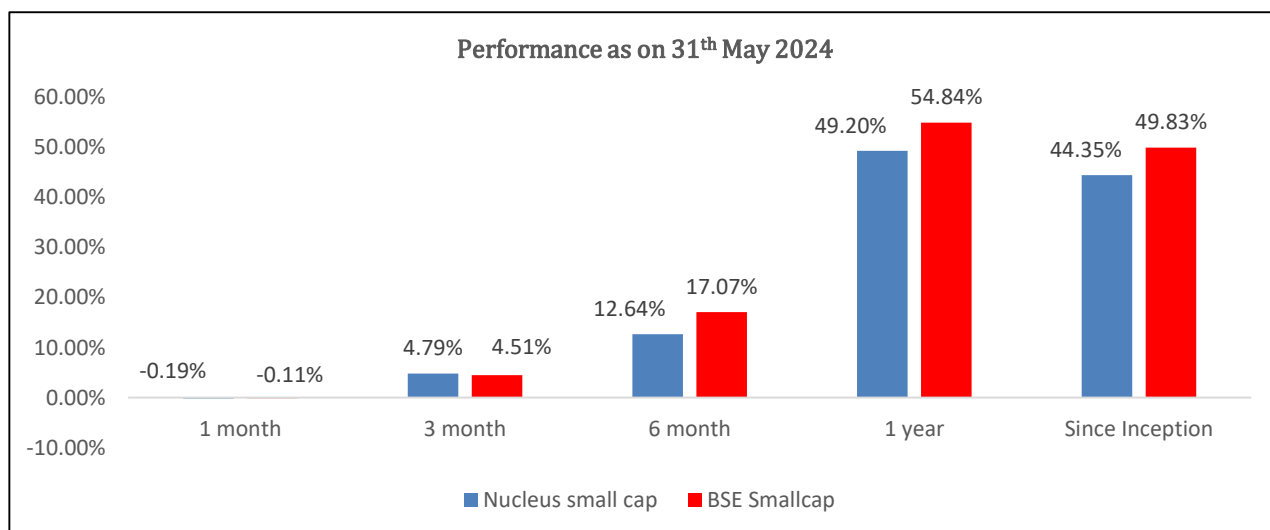
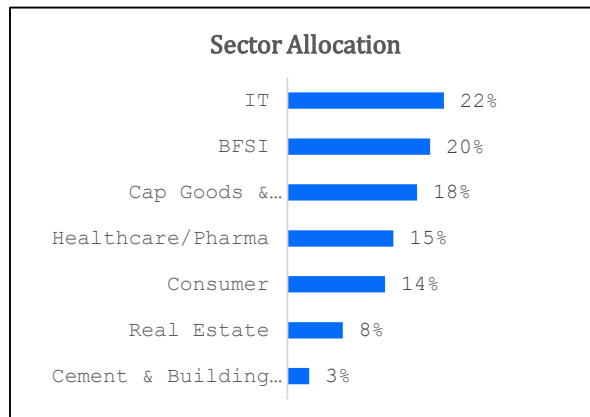
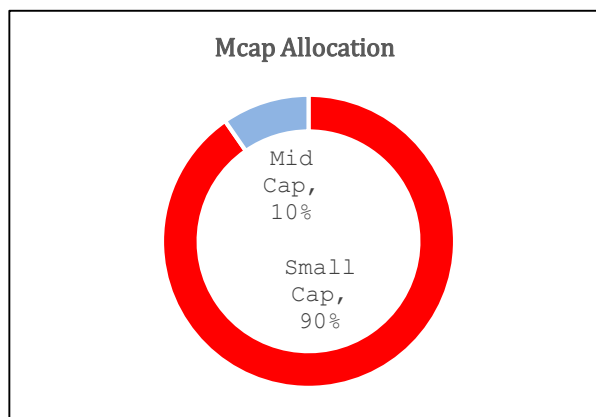


Details as of 31st May 2024, Returns less than 1 year are absolute, more than 1 year are annualized. Inception date – 6-Apr-21
Returns are provisional

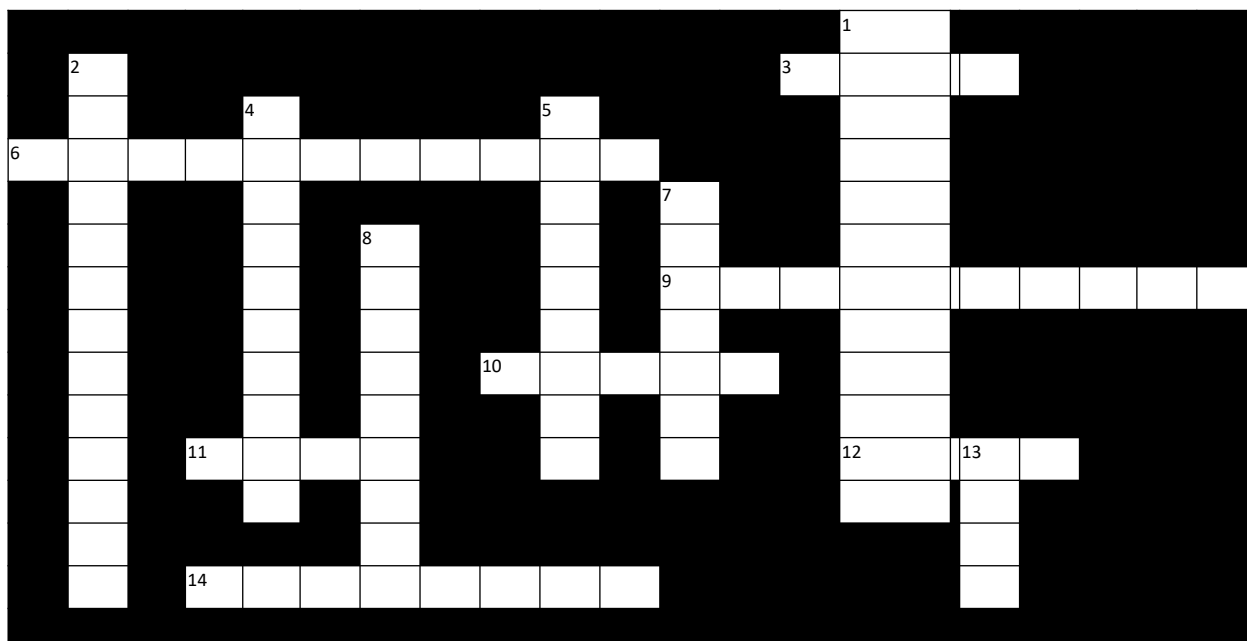
Portfolio Details:

Stock	%
MCX	8.1%
Brigade Enterprises	7.8%
J B Chem & Pharma	7.7%
Blue Star	7.6%
Krishna Institute of Medical Sciences	7.3%
Cyient	7.0%
Birlasoft	6.9%
KEI Industries	6.9%
Equitas SFB	6.7%
ratnamani Metals	6.4%

Stock	%
Cholamandalam Financial Holdings	4.9%
Westlife Foodworld	4.3%
JK Lakshmi Cement	3.1%
PNC Infra	2.9%
Can Fin Homes	2.9%
CreditAccess Grameen	2.7%
Karur Vyasya Bank	2.0%
Carborundum Universal	2.0%
Radico Khaitan	2.0%
BSE Ltd.	1.0%



Details as of 31st May 2024, Returns less than 1 year are absolute, more than 1 year are annualized. Inception date – 16-Feb-23



Across

- 3 _____ inflation refers to the non-food and non-fuel component of the inflation basket (4)
- 6 Wall Street of India (5,6)
- 9 Fluctuations in the price of a security (10)
- 10 The return on a debt security expressed as a proportion of its price (5)
- 11 A business entity engaged in commercial activities in order to generate profit(4)
- 12 A potential financial loss or not achieving expected returns on an investment decision (4)
- 14 An entity unable to pay its debt (8)

Down

- 1 _____ is a clause included in contracts to remove liability for unforeseeable and unavoidable catastrophes that interrupt participants from fulfilling obligations (5,7)
- 2 A temporary recovery of stock price from a prolonged decline followed by a continuation of the downtrend (4,3,6)
- 4 A decentralized ledger that is shared across a distributed network of peer-to-peer computers (10)
- 5 Significant decline in industrial production, employment, real income, and wholesale-retail trade (9)
- 7 An act to reduce the international value of a country's currency deliberately (7)
- 8 A reference index against which fund's performance is compared (9)
- 13 A mechanism through which investors can borrow or lend shares to other market participants (4)

Note : Solution for the above crossword will be provided in next month's newsletter

Answers of last month's crossword:

Across

- 5 Grace period
- 8 Annuity
- 9 Sortino
- 10 PFRDA
- 12 Amortisation
- 13 Surplus
- 14 Basis point

Down

- 1 Crossover
- 2 Liability
- 3 Maturity
- 4 Preferential
- 6 Creditor
- 7 EMI
- 11 Futures

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