

Market Macroscopic

April 2024

Investment Products



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Dear Investors,

"We are prone to overestimate how much we understand about the world and to underestimate the role of chance in events"

- Daniel Kahneman

Daniel Kahneman, the first psychologist to win the Nobel Prize for Economics, passed away last month. His work on behavioral economics influenced many fields including investing. His book "Thinking Fast and Slow" is a personal favorite and we recommend that every investor read it. Understanding the influence of factors such as anchoring bias, availability heuristic and hindsight bias is bound to improve our investment decision making. Of course, the learnings from the book go far beyond investing. The following comment by him is quite important in the context of markets:



"True intuitive expertise is learned from prolonged experience with good feedback on mistakes."

-Daniel Kahneman

Indeed, the expertise of our research teams, honed by years of experience, can prove invaluable to investors navigating these dynamic markets. Markets are being lifted by a near perfect combination of macro-economic factors: strong domestic GDP and earnings growth, expectations of political stability, strong US economy and expectations of interest rate cuts globally as inflation softens. SEBI's order to asset management companies to do a stress test on their mid and small cap schemes resulted in heightened volatility in the Indian small cap stocks. The DIIs used the correction to deploy funds aggressively. The DIIs net purchased Rs. 56,311 Cr of equities in cash in March 2024, the highest in more than 4 years, beating March 2020's net purchases of Rs. 55,595 cr. This helped the Nifty to reach a new lifetime high.



In this Month's equity market outlook, Unmesh Sharma, our Head of Institutional Equities, discusses the most frequently asked questions: Are we in a bubble, what is the outlook for the equity market overall, whether one should look at large caps now or mid and small caps, which sectors to bet on and which sectors are likely to be weak. Additionally, you will find all our regular articles in this Macroscope:

- **Equity outlook:** Unmesh Sharma's views on the market
- **Macroeconomic and Equity Markets recap:** Includes a summary of key macroeconomic data published last month and a recap of the movements in the global equity markets.
- **Debt Outlook:** This section updates key inflation releases, central bank actions and interviews and bond market movements.
- **Reading Room:** Some of the interesting essays we read this month.
- **Research Spotlight:** Small selection of some of our best research.
- **Crossword:** A fun and exciting brainteaser to challenge yourself

As always, we trust that you find this Macroscope valuable not only in your investment endeavors but also in broadening your understanding across diverse domains.

Warm regards

Dhiraj Relli
MD and CEO – HDFC Securities

Equity outlook by Unmesh Sharma, Head of Institutional Equities at HDFC Securities:

- The billion-dollar question in the market today is whether this is a bubble. We definitely see some froth in the market, but it can't be termed as a bubble yet. We feel that this fizz is largely localized to small and micro caps.
- Top-down, we think the market will remain sideways, and bottom-up stock picking dependent on earnings would be a prudent investment policy.
- Our analysis concluded that the Nifty Small cap index is trading at a steep premium of 49 percent over its average historical valuation level. This figure is more moderate at 22 percent in the case of the Nifty Midcap index and 14 percent for the Nifty 50.
- At the same time, approximately 30 percent of the stocks of these benchmarks are trading at discounts to their historical average valuation levels.
- Large caps are witnessing activities led by both FPIs and DIIs, while the small and mid-cap categories are dominated by domestic investors. Hence, currently, the nature of flows is driven by technical factors. The theme of increased participation in the equity markets is leading to rising flows in the small and mid-cap segments.
- The scenario in the markets changed post the results from the state elections in December. Investors have now built in a scenario where political stability is a given. In this scenario of elevated multiples, investments will chase stocks that deliver earnings. This is the only way expensive stocks will be able to sustain valuations.
- The global macro scenario remains uncertain but we have to acknowledge that slowly clarity is emerging. In the US, we do not see a dislocation and a sharp and deep recession. We see a more normalized slowdown as the Fed will continue to keep rates at elevated levels in 2024. We see cuts in the second half but in line with the Fed commentary of three cuts this year. While there was a divergence between the Fed commentary and the market participants, these are now converging.
- We expect consumption demand to witness a slight pickup in FY25, and FMCG stocks have moderated in valuations after a subdued performance in the last three quarters. Banks continue to be our preferred sector, where we are positive on large banks (public and private both).
- Our core thesis is that “semiconductor manufacturing in India” and “EVs” both remain long-term promising themes, but the pace of implementation will face certain challenges. We remain positive on the longer-term outlook of these themes but there are not many stocks that could be direct, specific plays.



Macro Economic Updates:

Global Macro summary: Inflation was mildly above expectations in the US but was lower than expectations in Europe. In the US, job growth continues to be robust as well as other parameters like retail sales which prompted bond traders to cut bets for a June rate cut by the US Federal Reserve. Europe reported sequential improvement in PMIs. The Swiss National Bank became the first central bank among developed nations to cut rates. India's lead indicators like GST collection, PMIs point to robust economic growth continuing.

United States:

US Inflation: US CPI came in at 3.2% in Feb 2024 after an increase to 3.1% YoY in Jan-2024 and was marginally higher than expectations. Core CPI also came in at 3.8% in Feb 2024, higher than expectations of 3.7% and marginally lower than 3.9% in Jan 2024.

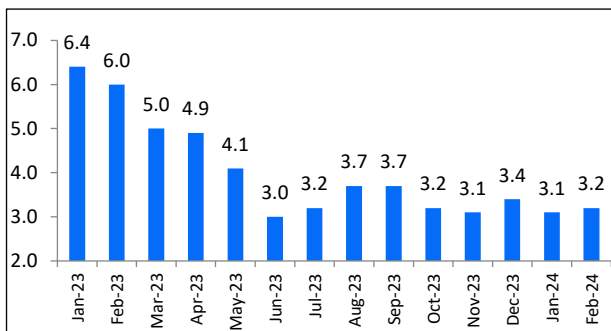
US Monetary policy meeting: The US FOMC kept key policy rates unchanged at its March meeting. The US Federal Reserve Chairman Jerome Powell said the central bank is not in a rush to cut rates even though inflation is getting closer to its 2% target. He added that the strong employment data is allowing the central bank to wait until inflation gets closer to 2%. Bond traders have pared bets that the US Fed will cut rates at its June meeting.

US treasury yield movement: US 10-year bond yields are currently trading at 4.42% (as of April 9, 2024) up from 4.25% as of Feb 29, 2024. Strong payroll data and higher than expected inflation contributed to the higher yields in the last few days.

US Retail sales (MoM) grew: US Retail sales grew 0.6% month-over-month in February 2024, reversing from a downwardly revised 1.1% decline in January, and better than market forecasts of a 0.5% increase.

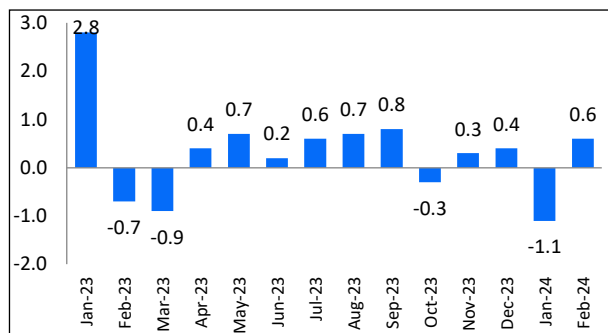
US Non-Farm Payrolls and unemployment rate: The US added 303,000 jobs in March 2024 compared to forecasts of 200,000. This was the highest in 10 months. The US unemployment rate unexpectedly fell to 3.8% in March 2024 compared to 3.9% in Feb 2024. The Feb reading had been the highest in 2 years.

US CPI Inflation YoY (%) : US CPI increased marginally to 3.2% YoY in Feb'24, marginally higher than expectations



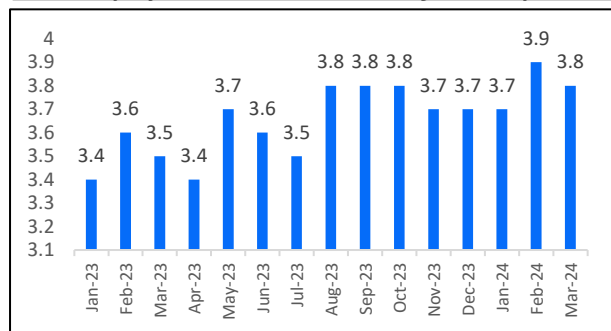
Source: US Bureau of Labor Statistics

US Retail Sales MoM (%) : increased by 0.6% MoM as compared to previous month's decline of 1.1%



Source: tradingeconomics.com

US Unemployment rate came down after a surprise rise in Feb



Source: tradingeconomics.com

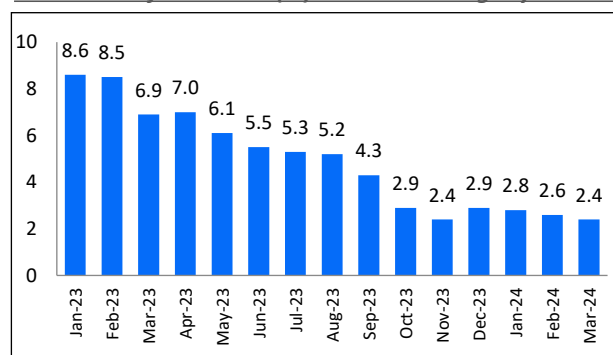
Europe:

Euro zone: Euro zone inflation fell more than expected, manufacturing improves marginally

Euro zone Inflation drops: The consumer price inflation rate in the Euro Area declined to 2.4% year-on-year in March 2024, down from 2.6% in the previous month. This matched November's reading and was the lowest in 28 months and well below the street expectations of 2.6%. The core rate also fell to 2.9% compared to forecasts of 3.0%.

Germany Manufacturing PMI: The HCOB Germany manufacturing PMI was revised to 41.9 in March compared to 42.5 in Feb. German Industrial production rose by 2.1% YoY in Feb-24 vs 1.3% in Jan-24. Economists polled by Reuters forecasted the industrial production to rise by 0.6% in Feb-24

Britain GDP and inflation: Britain's GDP expanded by 0.2% month-on-month in Jan 2024 following a fall of 0.1% in Dec 2023 and was in line with estimates. UK's inflation rate dropped to 3.4% YoY in Feb 2024 down from 4% recorded in Jan 2024 and below market expectation of 3.5%.

Euro Area Inflation YoY (%): moderated slightly to 2.4% YoY in Mar'24

Source: tradingeconomics.com

China:

China's industrial production expanded by 7.0% YoY in Jan-Feb 2024 combined, faster than a 6.8% growth in Dec 2023 and beating the market expectations of a 5.0% growth.

The Caixin China General Manufacturing PMI increased to 51.1 in March 2024 from 50.9 in the previous month and better than market forecast of 51. The Caixin China General Services PMI increased for the first time in 3 months to 52.7 in March 2024 from Feb's reading of 52.5

China's retail sales increased by 5.5% YoY in Jan-Feb 2024 combined, beating market consensus of 5.2% but slower than the 7.4% increase in Dec 2023

China's central bank kept key policy rates unchanged in line with expectation but later hinted at more monetary easing and more support for technological innovation.

India:

GST collections remain strong: GST collections rose by 11.3% YoY to Rs. 1.78 lakh cr in March 2024. This was the second highest ever monthly collections of GST.

India Inflation eases: India's CPI inflation eased to 5.09% in Feb compared to 5.1% in Jan. Core CPI also declined to 3.5% in Feb 2024 from 3.7% in Dec 2023.

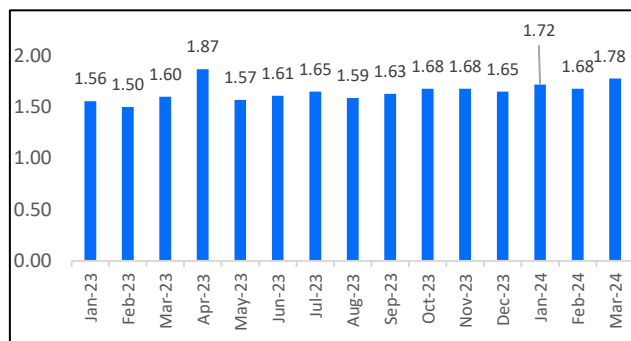
Reserve Bank of India kept its key policy rates unchanged at its meeting in early April and maintained its policy stance as "withdrawal of accommodation".

HSBC India Services PMI was revised higher to 61.2 in March 2024 from preliminary estimates of 60.3 and a reading of 60.6 in Feb 2024.

HSBC India Manufacturing PMI was at 59.1 in March 2024 compared to 56.9 in Feb. The reading was the fastest growth in factory activity since Feb 2008

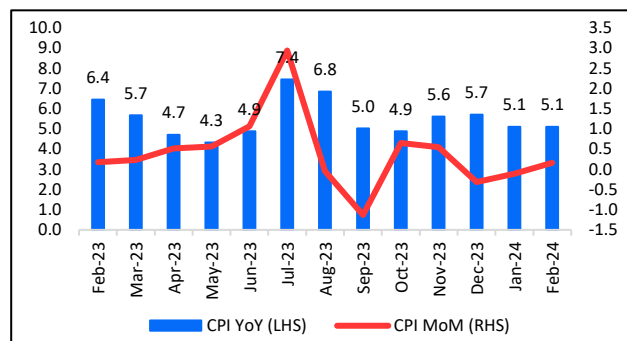
Bank loan growth continues to be strong with value of loans increasing by 20.2% YoY in the fortnight to March 22, 2024

GST Collection (Rs Lac cr)



Source: PIB

India's CPI Inflation monthly trend

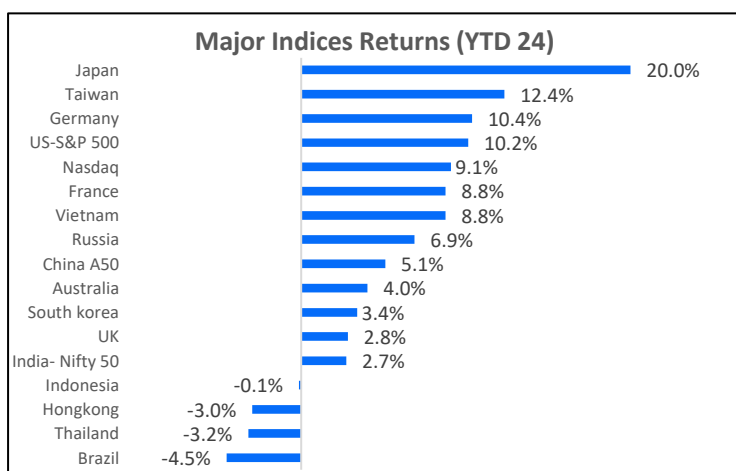


Source: MoSPI

Global Equities Markets:

In the month of March 2024, global equity markets continued to be strong with Vietnam, Taiwan and Germany delivering attractive returns of 6.5%, 6.2% and 4.6%, respectively (local currency). The US markets were also strong with the S&P500 and Nasdaq delivering returns of 3.1% and 1.79%, respectively during the month. Stronger than expected economic performance in the US and expectations of rate cuts in the US later this year boosted equity markets globally.

This was the best first quarter return for the S&P500 since 2019 as the S&P500 is up 10.2% YTD and Nasdaq is up 9.1% YTD. The best performing markets in 2024 YTD have been Japan, Taiwan and Germany with returns of 20.0%, 12.4% and 10.4%. India's Nifty 50 has lagged with returns of 2.7% YTD. Brazil, Thailand and Hong Kong have lagged with declines of -4.5%, -3.2% and -3.0%, respectively.

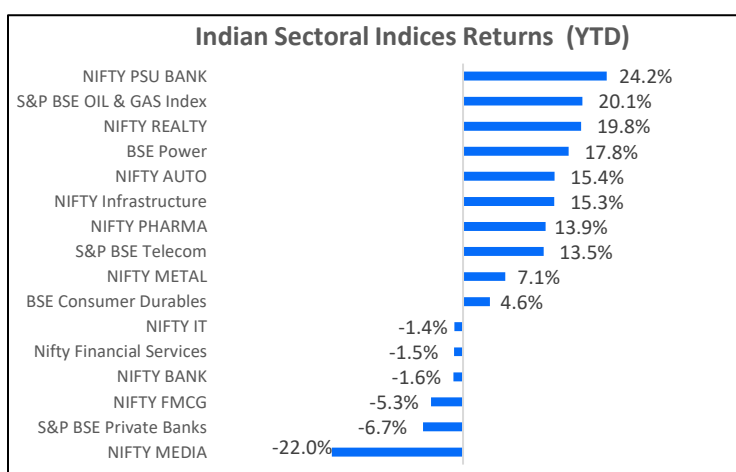


Source: Investing.com

Note: All returns are in local currencies.

Indian Equities:

- Nifty-50 gained 1.6% in March 2024 but underperformed major developed market indices like Taiwan (+6.2%), Germany (+4.6%) and S&P500 (+3.1%). The broader markets were much weaker given the SEBI/ AMFI directions for conducting stress tests and for moderating inflows into the mid and small cap funds. BSE Midcap and BSE Small cap indices declined by (-0.1%)/(-4.6%), respectively during March 2024. However, the broader markets have rallied substantially since then.
- In March 2024 major sectoral gainers included Nifty Metal, Nifty Auto and S&P BSE Telecom which gained 7.9%, 5.3% and 4.9%, respectively. Among sectoral losers, Nifty Media and Nifty IT fell by 9.1%, and 7.1%, respectively.
- Indian Sectoral Indices YTD:** PSU Banks, Oil & Gas and Realty indices have led the rally so far in CY24 while media, Private banks and FMCG sectoral indices have underperformed the broader markets.



Source: Investing.com

Flows:

DII remained net buyers of Indian equities in cash market for eighth consecutive month in March 2024 with net purchases of Rs 56,311 crore. This was the highest net purchases figure in more than 4 years and even surpassed March 2020 net purchase figure of Rs. 55,595 cr. FIIs turned net buyers in March 2024 with net purchases of Rs. 3,314 cr in cash. FIIs were net sellers for 2 months before that. (Source: Moneycontrol.com). The FII and DII activity was bolstered by some large block deals like BAT's stake sale of ITC shares (Rs. 17,485 cr), Tata Sons' sale of stake in TCS (Rs. 9,000 cr), promoter stake sale in Indigo (Rs. 6,786 cr), Standard Chartered's sale of stake in CDSL (Rs. 1,266 cr), Olympus Capital's sale of stake in Aster DM (Rs. 1,952 cr) and other block deals.

IPO Review:

March 2024 witnessed strong primary market activity as 9 companies came out with an IPO to raise an aggregate amount of Rs. 9,355 cr. Bharat Highways Invit (Rs. 2,500 cr) and Bharti Hexacom (Rs.4,275 cr) were the largest IPOs. Exicom Tele-systems saw the highest listing gain of 86.6% followed by Mukka Proteins (42.9%) and Platinum Industries (31.5%). RK Swamy and Gopal Snacks were the worst performers with listing day declines of around 13%.

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)
Platinum Industries Limited	235	29-Feb-24	171.0	225.0	31.6%	99.0	151.0
Exicom Tele-Systems Limited	429	28-Feb-24	142.0	265.0	86.6%	133.6	124.8
Bharat Highways Infrastructure Investment Trust InvIT	2500	1-Mar-24	100.0	101.1	1.1%	6.7	6.6
Mukka Proteins Limited	224	4-Mar-24	28.0	40.0	42.9%	137.0	189.3
R K SWAMY Limited	423	6-Mar-24	288.0	250.0	-13.2%	25.8	20.6
JG Chemicals Limited	251	7-Mar-24	221.0	209.0	-5.4%	28.5	32.3
Gopal Snacks Limited	650	11-Mar-24	401.0	351.0	-12.5%	9.5	18.4
Popular Vehicles & Services Limited	602	14-Mar-24	295.0	289.2	-2.0%	1.3	1.9
Krystal Integrated Services Limited	300	18-Mar-24	715.0	785.0	9.8%	13.5	7.3
SRM Contractors Limited	130	28-Mar-24	210.0	215.3	2.5%	86.6	59.6
Bharti Hexacom Limited*	4275	5-Apr-24	542-570			29.9	48.6

* Company to get listed on 12th April 24

Key Risks:

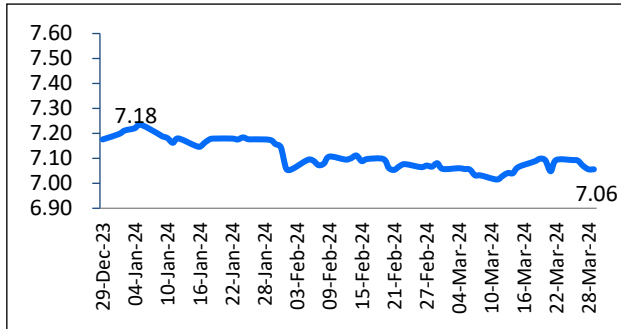
Geopolitical conflicts remain a key risk. Last month, Israel bombed the Iranian consulate in Syria killing several members of the Iranian Revolutionary Guard including a senior commander. This increases the risk of a widening of the Israel-Hamas conflict to include regional countries like Iran. Crude Oil prices have been trending up recently, partly because of the output cuts imposed by OPEC+ block. This is an additional risk for India. Elections are due in India in May but market estimates the probability of a surprise as quite small.

Elevated valuations remain a key risk particularly in the mid and small cap stocks. The sharp correction in the second half of February is a timely reminder of the risks. So far, positive domestic flows have kept the markets elevated. Any change in the domestic sentiment could open a larger downside in mid and small cap stocks.

India 10-Year G-Sec Yield Movement

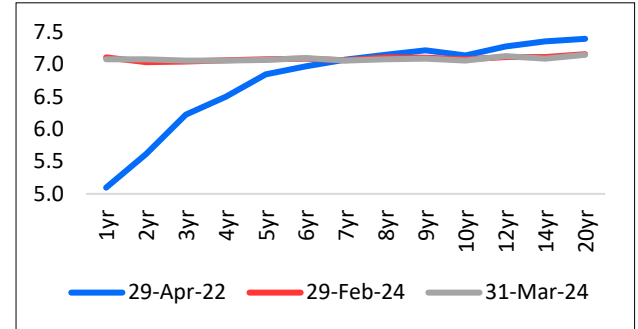
- 10yr G-sec yield fell by 2 bps from 7.08% in Feb'24 to 7.06% in Mar'24
- During the month, 10yr yield fell to a 9-month low of 7% but rose towards the month end, tracking the rise in US yields, crude oil prices and INR depreciation

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



Source: Investing.com

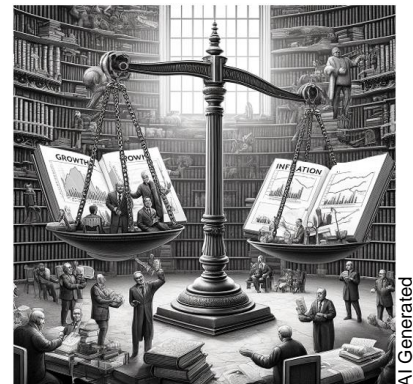
India's G-sec yield curve continues to remain flat



Source: Bandhan MF, Bloomberg

RBI's Monetary Policy Meeting: Key Highlights

- RBI's MPC decided to keep the repo rate unchanged at 6.5% with a 5:1 vote in Apr 2024 meeting
- The MPC also kept the policy stance unchanged and decided to remain focused on "withdrawal of accommodation" with a 5:1 vote
- RBI remained optimistic on growth and said this provides space for monetary policy to remain tight
- RBI showed some comfort on the disinflationary process that is underway - particularly in core inflation
- RBI's FY25 Projections: GDP growth - 7.0%; CPI inflation - 4.5%



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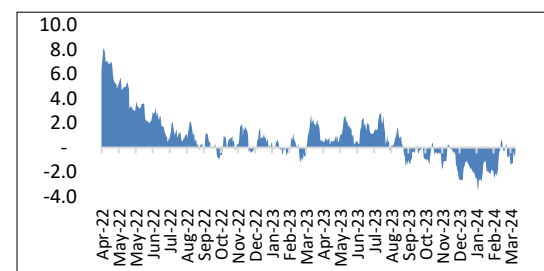
Tracking India's Economic Pulse

- **GST Collection:** India's GST collection grew by 11.5% YoY to Rs. 1.78 lakh cr (2nd highest ever) in Mar'24. Total gross collection in FY24 stood at Rs. 20.1 lakh cr, up 11.7% YoY
- **PMIs:** India's Manufacturing PMI rose to a 16-year high of 59.1 in Mar'24 from 56.9 in Feb'24. India's Services PMI rose to 61.2 in Mar'24 from 60.6 in Feb'24
- **Core Sector Performance:** India's eight core industries grew by 6.7% YoY in Feb'24 vs. 4.1% in Jan'24
- **Fiscal Deficit:** India's fiscal deficit stood at Rs.15.0 lakh cr (86.5% of FY24 target) during Apr'23 to Feb'24

Banking System Liquidity Dynamics

- **Deficit Liquidity:** Banking system liquidity continues to remain in deficit since mid of Sep'23. During Mar'24, average liquidity deficit was Rs. 0.4 lakh cr vs. Rs. 1.9 lakh cr in Feb'24
- **Impact on Short-term Interest Rates:** Liquidity deficit continues to keep overnight and short-term interest rates elevated

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 4 bps from 4.25% in Feb’24 to 4.21% in Mar’24
- Higher than expected inflation print, resilient job market and strong economic growth continues to keep bond yields elevated
- 10yr yield remained volatile during Mar’24 and traded in the range of 4.08-4.33%

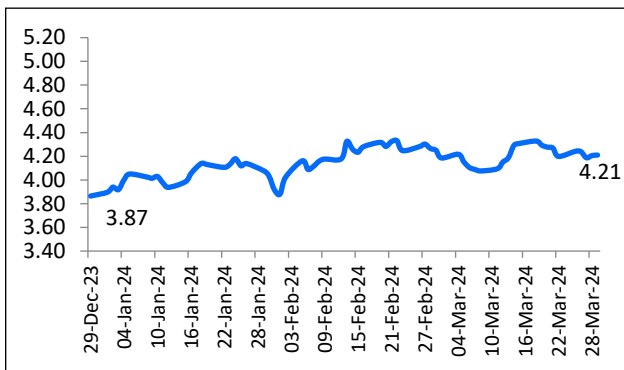
US Fed’s FOMC Meeting:

- US Fed kept Fed Funds rate unchanged at 5.25-5.50% for the fifth consecutive meeting
- Fed maintained its projection of 3 rate cuts in 2024 despite recent elevated inflation readings
- Fed Chair Powell said that timing of rate cuts still depends on officials becoming more secure that inflation is sustainably moving towards the Fed’s 2% target

US Inflation Overview:

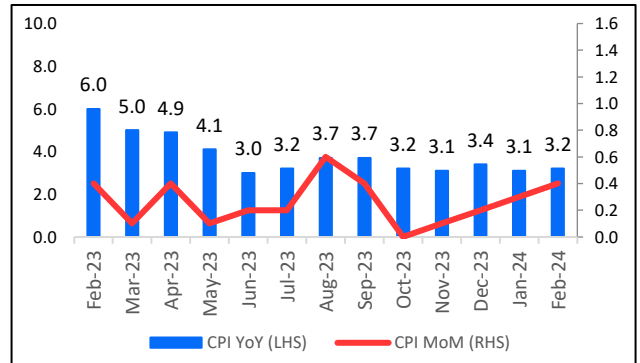
- US CPI rose more than expected to 3.2% YoY in Feb’24 vs. market expectations of 3.1%
- Core CPI (ex-food and fuel) rose by 3.8% YoY in Feb’24 vs. market expectations of 3.7% and as compared to 3.9% in Jan’24
- Increase in energy and shelter costs accounted for more than 60% of the rise in CPI

US 10 yr treasury yield movement in last 3 months



Source: Investing.com

US CPI inflation monthly trend

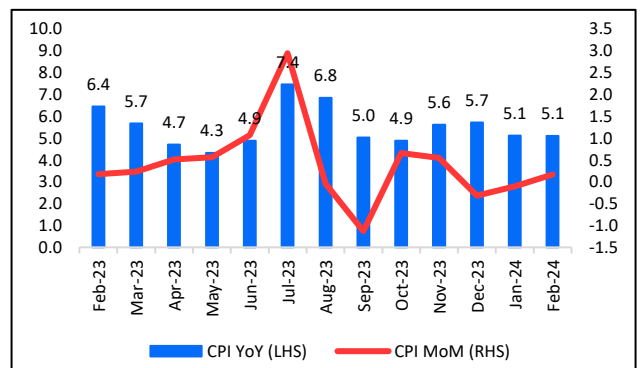


Source: US Bureau of Labor Statistics

India's Inflation Scenario

- India’s CPI inflation remained unchanged at 5.1% YoY in Feb’24 as compared to Jan’24
- Inflation was supported by favourable base and moderation in core CPI (ex-food and fuel)
- Core CPI eased to 3.3% YoY in Feb’24 from 3.6% in Jan’24 led by a broad-based moderation across categories

India’s CPI inflation monthly trend



Source: MoSPI

Outlook

Interest Rates and Liquidity:

- We expect 50 bps of cumulative rate cuts in FY25, beginning in Q3 FY25
- RBI didn't announce any changes in its liquidity management. On average, liquidity balances are expected to be close to neutral over the coming quarter and sustained large deficits are unlikely
- We expect some further improvement in liquidity balances once government spending picks up pace by Q2 FY25 and expected foreign inflows due to inclusion in the JP Morgan bond index are supportive

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 strong demand
- 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

19 March 2024 | Company Update



HPCL

REDUCE

CMP (as on 18 Mar 2024)	INR 461
Target Price	INR 425

Hindustan Petroleum Corporation (HPCL) stock corrected ~22% from its 52-week high and has underperformed the Sensex by ~23% over the last 1M. We believe the risk-reward in the stock is unfavorable for investors. Lower range bound oil prices and discount on Russian crude and no improvement in refining or marketing operations were the key reasons for HPCL's strong profitability over 9MFY24 and hence we believe it does not deserve a significant premium to historical valuation multiples.

Lower range bound oil prices had boosted profitability over 9MFY24.

EBITDA/PAT should decline by 13/19% CAGR over FY24-26E

We reiterate our REDUCE recommendation on HPCL with a target price of INR 425 per share, owing to the risk of moderation in auto-fuel marketing margins and refining margins. We estimate EBITDA/PAT should decline by 13/19% CAGR over FY24-26E and believe the current multiples of 8x FY25E EPS, 7.7x FY25E EV/EBITDA and 1.3x FY25E P/Bv remain demanding.

18 March 2024 | Company Update



Clean Science and Technology

SELL

CMP (as on 15 Mar 2024)	INR 1,299
Target Price	INR 1,037

We believe CSTL has an import substitution opportunity in HALS. However, the upcoming capacity augmentation in HALS by competitors and muted demand growth shall remain challenges to growth in HALS revenue. Therefore, HALS revenue growth could be slower than we had anticipated earlier. We have lower revenue estimates from HALS in FY25 and FY26.

HALS revenue growth could be slower because of competition

entry of new domestic competitors in MEHQ

We maintain SELL on Clean Science and Technology (CSTL) with a price target of INR 1,037 (WACC 11%, terminal growth 6%), owing to (1) slower-than expected ramp-up in hindered amine light stabilizers (HALS) and (2) entry of domestic competitors in mono methyl ether of hydroquinone (MEHQ) manufacturing

28 March 2024 | Company Update



BSE

BUY

CMP (as on 27 Mar '24) INR 2,464
Target Price INR 3,050

BSE has attained a 20/7% notional/premium market share, largely driven by the rising popularity of its derivatives contracts. Among these, the SENSEX contract has matured, commanding ~40% of the market share, while the BANKEX is in its build phase, currently holding a 12% market share. We believe the derivative growth for BSE will continue to be led by (1) the scaling of the BANKEX contract, (2) the go-live of large discount brokers, (3) a higher volume of algo and proprietary traders, (4) an increase in active UCCs, and (5) greater participation of FPIs. In this note, we've also analyzed the impact of higher SGF and settlement costs.

7% premium market share now, rising popularity of its derivatives contracts.

expect EPS CAGR of 42% over FY24-26E

Assuming a premium market share of ~11% in FY26E and current pricing, derivatives will contribute 43% of BSE's total revenue and 53% of EBITDA. We expect a revenue/EPS CAGR of ~34/42% over FY24-26E, led by a revival in transaction revenue. We maintain our BUY rating and assign a SoTP-based target price of INR 3,050, based on 40x core FY26E PAT + CDSL stake + net cash ex SGF.

27 March 2024 | Company Update



LTIMindtree

ADD

CMP (as on 26 Mar 24) INR 4,975
Target Price INR 5,630

LTIMindtree's (LTIM) growth deceleration has been impacted by higher exposure to BFSI (with potential for deterioration due to client-specific factors), sub-optimal large deal pipeline and extended period of integration reflected in continued executive attrition. While the medium-term hypothesis for growth premium to tier1 peers remains, the earnings cut reflects the near-term growth challenges and delayed margin recovery

Near-term growth challenges and delayed margin recovery

Outlook constructive due to its strong technology credentials

We met the management recently and expect LTIM's rate of recovery to be gradual, impacted by a 'weak exit' to FY24E. While we lower our optimism, the outlook remains constructive for LTIM due to its strong technology credentials and partnerships supporting its position as a challenger to larger tier-1s, sub-vertical expertise, a strong track record of large client mining, and margin improvement potential. Maintain ADD on LTIM with a revised TP of INR 5,630, based on 25x FY26E.

26 March 2024 | Company Update



ADD

Kaynes Technology

CMP (as on 22Mar 2024) INR 2,797

Target Price INR 3,000

Kaynes is likely to be a key beneficiary of the government's thrust on electronics manufacturing, given its well-diversified business model catering to various end-use industry segments. Moreover, given a higher skew towards low-volume high-mix segments and box-build (9MFY24: 39%), Kaynes's EBITDAM is the highest amongst peers

Kaynes's EBITDAM is the highest amongst peers

current valuation of 52x FY26 earnings has little room for error. We downgrade our rating from BUY to ADD

We estimate Kaynes's revenue/EBITDA/PAT will grow at a CAGR of 47/46/53% over FY23-26E, largely led by the traditional EMS business as OSAT and bare PCB won't see any meaningful contribution before FY27-28. We value the traditional business at 45x P/E on FY26 EPS and add INR 405/180 per share for OSAT/bare PCB (discounting FY30 earnings by 13%) to arrive at a TP of INR 3,000. The current valuation of 52x FY26 earnings is baking in all the positives with little room for error. We downgrade our rating from BUY to ADD

05 March 2024 | Initiating Coverage



ADD

Mankind Pharma

CMP (as on 5 Mar 2024) INR 2161

Target Price INR 2360

Mankind Pharma (MANKIND) has ascended to the position of the fourth-largest company in the Indian Pharma market (IPM), rising from 8th place in FY12. Its market share has jumped to ~4.4% as of 9M'24 (vs. ~3.3% in FY14). This was largely led by outperformance in the acute (by 1.3x) and scale-up in the chronic (by 1.4x).

Market share improved from 3.3% in FY14 to 4.4% now

Its low-price strategy was the key differentiator that increased its volume share

Therapies like CVS and anti-diabetics have seen notable traction, thanks to their strong brand-building capabilities. Its low-price strategy (offering discounts compared to peers in similar categories) was the key differentiator that increased its volume share to ~5.7% in 9M'24 (vs. 3.9% in FY14).

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

1. 10 lessons to learn from the book “Thinking, Fast and Slow” by Daniel Kahneman

- The groundbreaking book delves into decision making and the dual systems that govern our thought process and how each influences our decisions
- The article talks about various biases and heuristics that our mind applies which results in poor decision making
- Overconfidence bias for instance clouds our judgement and undermines the accuracy of our predictions
- Hindsight bias is another pervasive bias in the investing world. Understanding the intricacy of forecasts helps cultivate an attitude that will help investors be more flexible



AI Generated

<https://www.timesnownews.com/lifestyle/books/features/10-lessons-to-learn-from-the-book-thinking-fast-and-slow-by-daniel-kahneman-article-105322709>

2. Stocks just had their best first quarter in 5 years

- The key debate on Wall Street is if the US markets can continue to climb higher. The market rally has broadened in the past few months with investors piling into sectors sensitive to economic shifts like materials and industrials
- Goldman Sachs’ equity strategy team has a year-end target of 5,200 on S&P500 (same as current level). It explored 4 other scenarios with the two upside scenarios yielding a 10% upside from current levels. It advised investors to stay invested because the upside risks outweighed the downside risks
- The bears on the street are wary of the recent bumpy inflation readings. JP Morgan has maintained a target of 4,200 by the end of the year
- Deutsche analysts feel that the current risk appetite is far below levels seen in prior rallies



AI Generated

<https://finance.yahoo.com/news/stocks-just-had-their-best-first-quarter-in-5-years--heres-where-strategists-think-the-market-is-headed-113742174.html>

3. Why metals will shrug off history's greatest property crash

- For two years, a financial crisis has rocked Chinese real estate developers but building activity has been holding up pretty well until recently
- In the US, home completions fell by about half in the two years after the market peaked in 2006 and continued to collapse to roughly a quarter of their peak by 2011. In China, two years after the markets started to crack in 2021, completions are down 1% from their peak
- In recent years, housing completions appear to be tracking commodities demand more closely, rather than housing starts and sales
- Production of steel, copper, aluminum and glass, buoyed by manufacturing, has increased even as real estate market crashed



AI Generated

<https://www.ndtvprofit.com/view/china-property-metals-will-shrug-off-history-s-greatest-crash>

4. Its too late to China-Proof the lithium supply chain

- The global industry looking for lithium should get comfortable with China as a partner not a rival is the crux of the article
- Developed market governments looking to build a supply chain for lithium which is free of China's influence are at least a decade late
- Chinese chemical companies have entered an offtake agreement with Australia's second largest lithium mine to purchase every ton of ore that the mine can produce. Chinese capital was also instrumental in lifting Argentina to the fourth largest producer of lithium
- Most of the largest lithium industry players either have China as an equity owner or as a principal customer

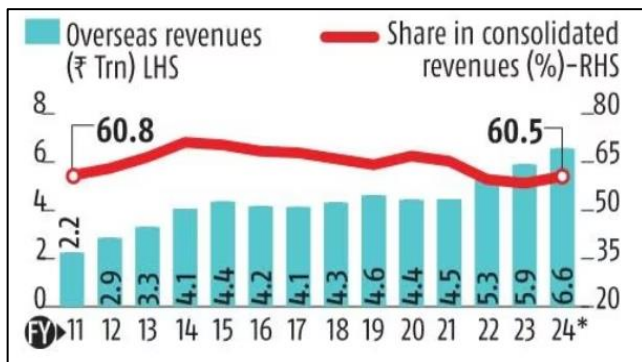


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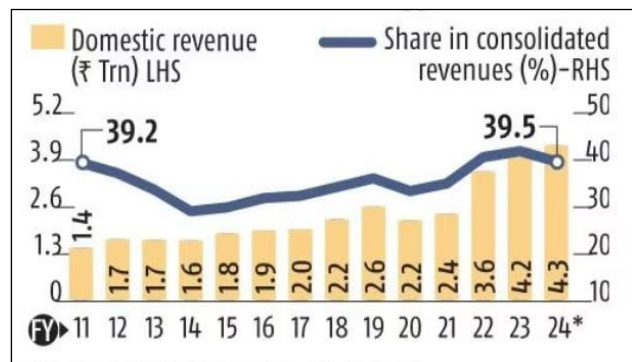
<https://www.ndtvprofit.com/opinion/china-proofing-the-lithium-supply-chain-is-now-almost-impossible>

1. From Global Giants to Domestic Dominance: The Resurgence of Indian Business

Overseas business of India's top 5 homegrown MNCs



Domestic business of India's top 5 homegrown MNCs



Source: Business Standard, Capitaline, Company Presentations and Annual Reports

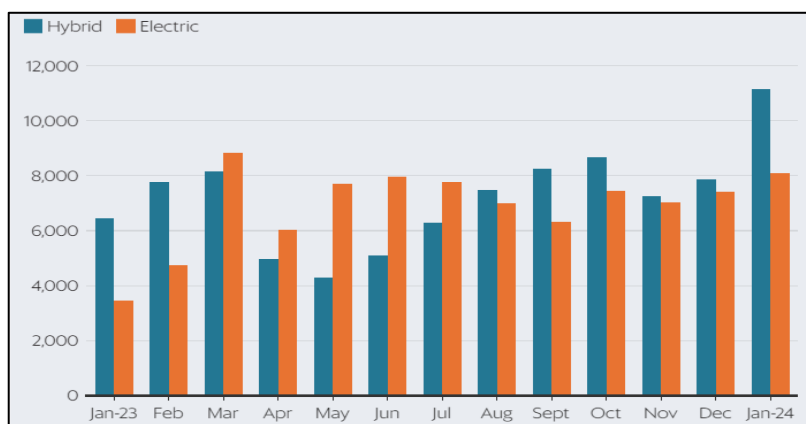
Note: Top 5 MNCs – Tata Motors, Tata Steel, Hindalco, Bharti Airtel, and Samvardhana Motherson International

Data for FY24 is annualized based on results for 9M FY24

- For India's top 5 homegrown MNCs, share of overseas business in total revenues remains significant at ~60%
- This is driven by multi-billion-dollar acquisitions done over last 15 years across the globe
- However, in last 5 years contribution of Indian business is on the rise
- In FY23, Indian operations accounted for 41.6% of total revenues, up from 34% in FY18
- During FY18 to FY23, domestic revenues grew by 13.6% CAGR vs. 6.4% for overseas business

2. Electrifying Insights: Exploring the surge in hybrid car sales in India

Hybrid and electric car sales in India (in units)

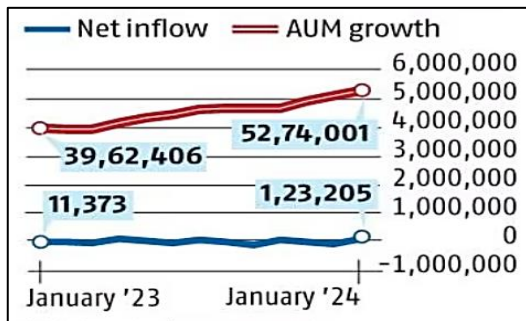


Source: Mint, Vahan

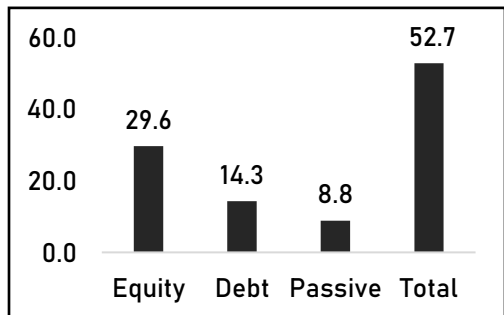
- In 2023, sale of hybrid cars touched an all-time high of 82,607 units, 4x increase from under 20,000 units in 2022
- Electric car sales nearly doubled to 81,710 units in 2023 from 41,675 units in 2022
- In 2023, hybrid cars outsold electric cars for the 1st time even though hybrid cars do not get tax concessions or incentives unlike electric cars
- Electric cars attract a much lower 5% GST vs. 43% for hybrid cars
- Key challenges for electric cars – range anxiety, inadequate charging infra and uncertain resale value

3. The Bull Run Effect: MFs swell to Rs 53 lac cr (as of Jan'24)

MF Net Inflows & AUM Growth (Rs cr)



MF AUM break-up (Rs lac cr)



Source: BS, AMFI

- MF AUM grew by **33%** from Rs. 39.6 lakh cr in Jan'23 to **Rs. 52.7 lakh cr** in Jan'24
- In absolute terms, AUM growth was around Rs. **13 lakh cr**
- How did this AUM grow?



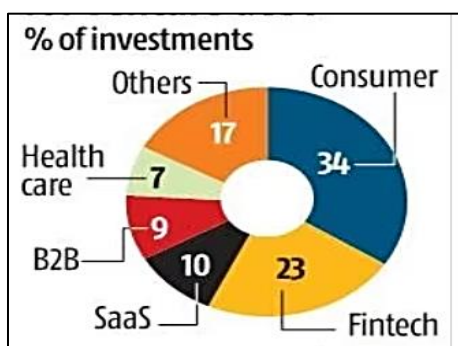
- Thus, we can see that, MTM gains accounted for **71%** of AUM growth
- Equity MFs saw net inflows of **Rs. 1.6 lakh cr** in CY23
- Debt MFs registered an **outflow** of **Rs. 46,000 cr** in CY23

4. Amidst Equity Freeze, Venture Debt warms up with \$1.2 bn in deals

Venture Capital & Venture Debt Funding Trend

Year	Venture capital		Venture debt	
	Investments (\$ bn)	Deals	Investments (\$ bn)	Deals
2019	11.1	756	0.3	52-70
2020	10	809	0.3	46-52
2021	38.5	1,545	0.5	62-80
2022	25.7	1,611	0.8	170-180
2023	8	1,085	1.2	175-190

Deal wise sector split for Venture Debt (CY23)

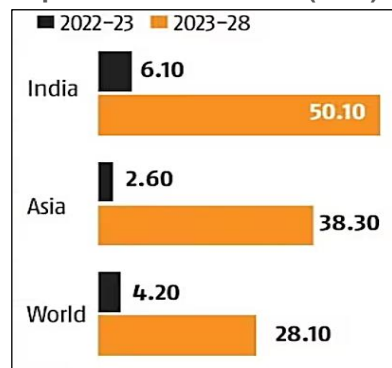


Source: BS, Stride Ventures

- Venture capital refers to an equity investment made by a VC firm into a start-up
- Venture debt is a loan taken by a start-up to be repaid with interest during loan tenure
- Funding through venture debt was up by 50% YoY in CY23 to \$1.2 bn (175-190 deals) from \$0.8 bn in CY22
- On the other hand, venture capital investments fell by 70% YoY to \$8 bn (1,085 deals) in CY23
- Most of the debt funding in CY23 went to Consumer (34%) and Fintech sector (23%)

5. India's Fortune Frontier: The Meteoric Rise of Ultra-rich

Expected rise in UHNIs (in %)

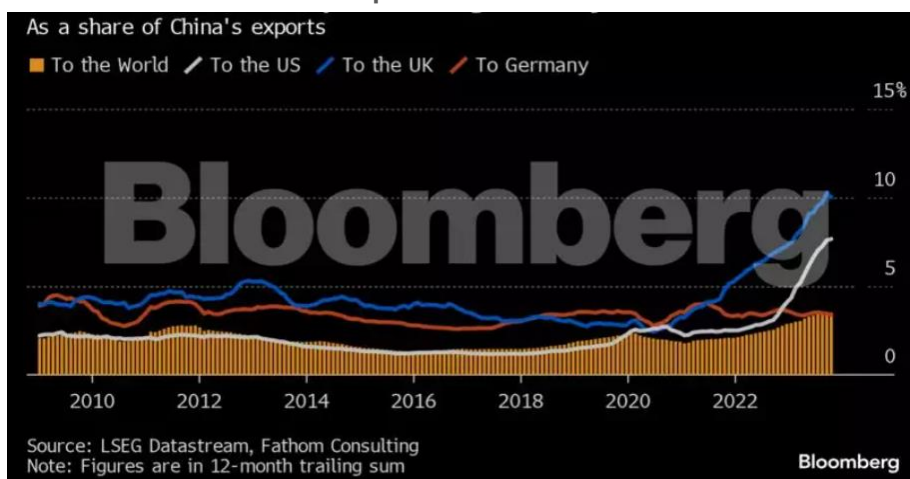


Source: Business Standard, Knight Frank's "The Wealth Report 2024"
 Note: For UHNI classification, net worth of more than \$30 mn is considered

- India is expected to witness highest growth of 50% in no. of ultra high net worth individuals (UHNIs) during 2023-2028, as per Knight Frank
- No. of UHNIs is likely to increase from 13,263 in 2023 to 19,908 in 2028
- India will be followed by China (47%), Turkiye (43%) and Malaysia (35%)
- Preferred luxury investment avenues of Indian UHNIs- watches followed by art and jewelry. Global preference has been art, followed by watches and classis cars

6. Voltage Victory: India's Triumph over China in Electronics

Rise in India's electronics exports



Source: ET, Bloomberg

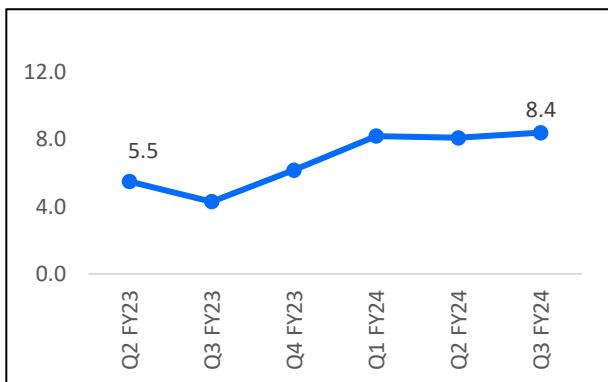
- India's share in electronics exports is rising as manufacturers are diversifying supply chains away from China
- This impact is more pronounced in US and UK due to geopolitical tensions with China
- India's electronics exports to US as a ratio of China rose to 7.7% in Nov 2023 from 2.5% in Nov 2021. For UK, this share rose to 10% from 4.8%
- Indian government measures to support exports – large incentives such as tax cuts, rebates, easier land acquisition and capital support

Index Performance (31-Mar-24)

Scheme Name	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y	10 Y
NIFTY 50	1.6	2.7	13.7	28.6	13.8	15.4	14.0	12.8
S&P BSE SENSEX	1.6	2.0	11.9	24.9	13.1	14.5	13.8	12.7
S&P BSE 500	0.8	4.3	16.9	38.4	17.2	18.3	16.0	14.5
S&P BSE Mid-Cap	-0.1	6.7	21.6	63.4	28.8	25.3	20.7	18.8
S&P BSE Small-Cap	-4.6	1.2	14.9	60.1	24.9	28.6	23.7	19.9
NIFTY AUTO	4.9	15.0	32.3	74.9	43.3	29.8	21.0	14.1
NIFTY BANK	2.2	-2.4	5.7	16.1	14.9	12.2	9.1	14.0
Nifty Financial Services	2.9	-2.3	6.0	16.2	12.2	10.1	11.0	14.8
NIFTY FMCG	-0.1	-5.3	4.6	17.5	23.0	16.8	12.3	11.5
NIFTY Infrastructure	3.1	14.1	33.5	63.7	29.7	27.2	21.1	12.2
NIFTY IT	-7.5	-1.7	9.8	21.6	-1.6	11.2	17.5	14.2
NIFTY MEDIA	-12.4	-24.8	-20.8	5.6	-12.3	5.1	-6.2	0.1
NIFTY METAL	4.2	3.5	20.7	50.2	12.2	28.8	22.6	13.0
NIFTY NEXT 50	2.8	13.7	34.6	60.4	22.1	21.2	16.8	16.4
NIFTY PHARMA	0.0	12.9	23.2	58.1	18.3	16.9	15.6	9.5
NIFTY PRIVATE BANK	2.0	-5.3	2.0	14.3	14.3	9.7	6.3	0.0
NIFTY PSU BANK	1.1	22.6	33.3	88.6	59.9	48.9	15.9	9.9
NIFTY REALTY	-1.1	15.0	56.5	132.5	41.3	39.8	27.5	17.2
S&P BSE Consumer Durables	2.1	4.6	15.3	38.9	11.8	17.8	17.1	23.4
S&P BSE OIL & GAS Index	-0.1	20.1	45.3	59.0	20.9	23.4	12.8	11.3
S&P BSE Power Index	1.7	15.2	43.8	85.9	29.2	39.1	27.1	14.5
S&P BSE Telecom	1.8	10.2	18.2	66.3	18.7	24.0	19.5	7.4

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

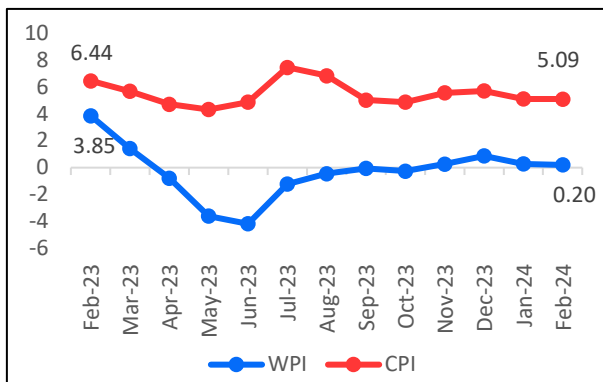
GDP Growth (% YoY):



	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24
GDP Growth (% YoY)	5.5	4.3	6.2	8.2	8.1	8.4

Source : MoSPI

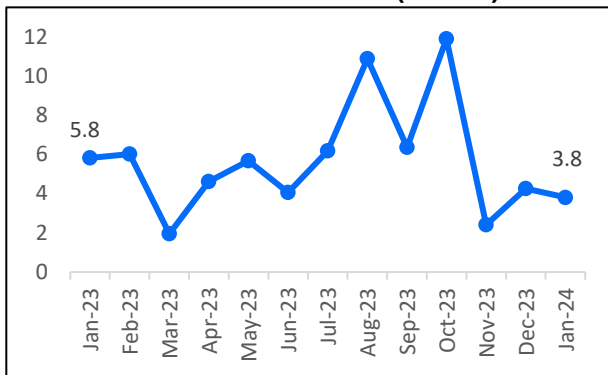
Inflation (% YoY):



	Feb-23	May-23	Aug-23	Nov-23	Feb-24
WPI (% YoY)	3.85	-3.61	-0.46	0.26	0.20
CPI (% YoY)	6.44	4.31	6.83	5.55	5.09

Source : MoSPI

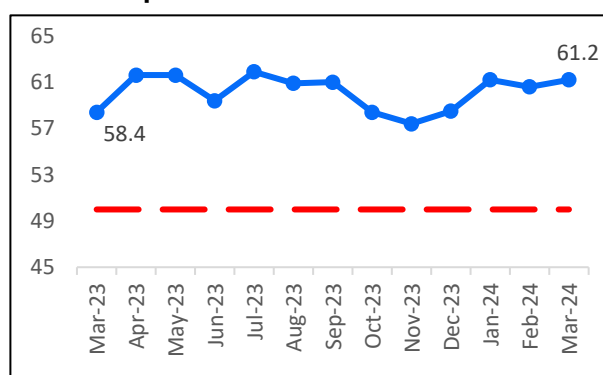
Industrial Production Growth (% YoY):



	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24
IIP (% YoY)	5.8	4.6	6.2	11.9	3.8

Source : MoSPI

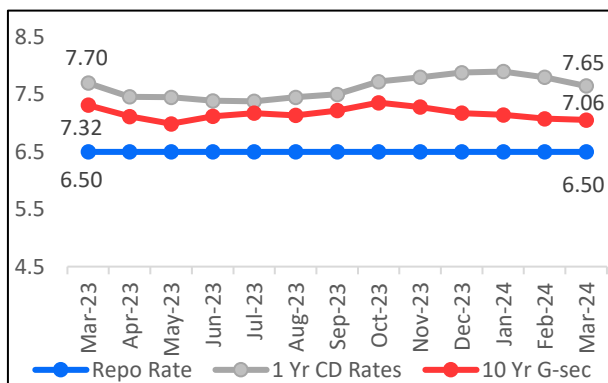
India Composite PMI:



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Composite PMI	58.4	59.4	61.0	58.5	61.2

Source : S&P Global

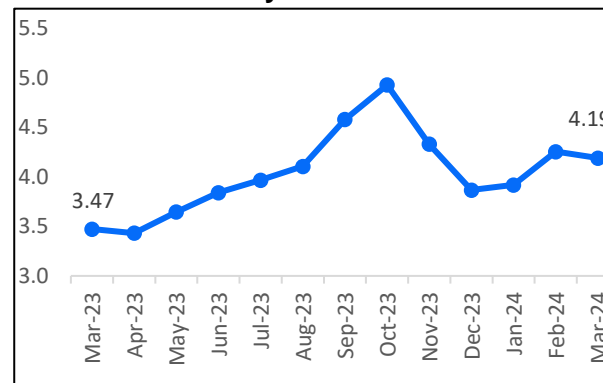
Domestic Yield Movement:



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Repo	6.50	6.50	6.50	6.50	6.50
1 Yr CD	7.70	7.39	7.50	7.88	7.65
10 Yr Gsec	7.32	7.12	7.22	7.18	7.06

Source : investing.com, RBI, Bloomberg

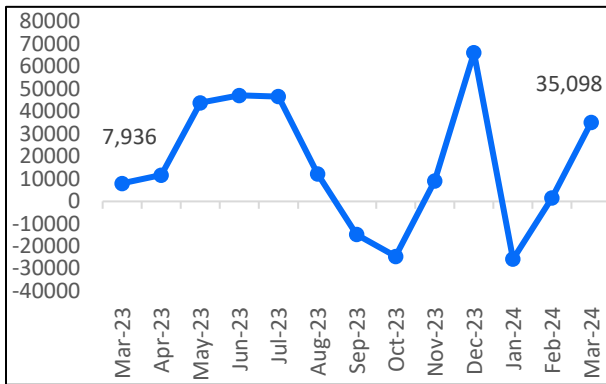
10 Year US Treasury Yield Movement:



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
US 10Yr Yield	3.47	3.84	4.58	3.87	4.19

Source : investing.com

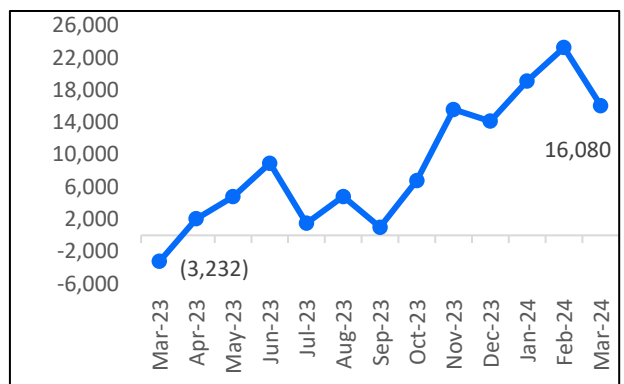
FII Equity Flows (Rs cr):



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
FII Equity Flows	7,936	47,148	-14,768	66,135	35,098

Source : NSDL

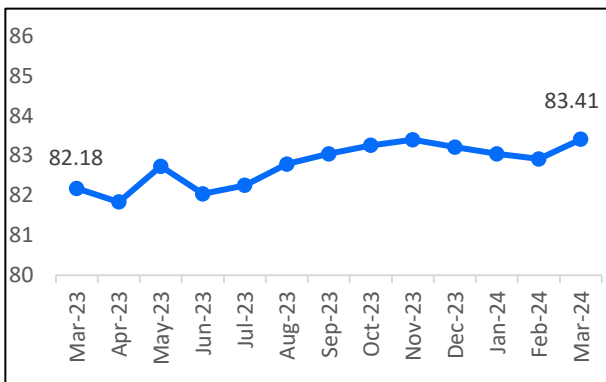
FII Debt Flows (Rs cr):



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
FII Debt Flows	-3,232	8,936	992	14,156	16,080

Source : NSDL

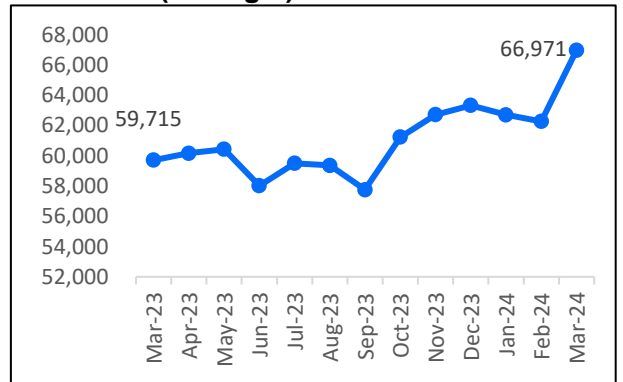
USD vs. INR:



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
\$ vs. ₹	82.18	82.04	83.04	83.21	83.41

Source : Bloomberg

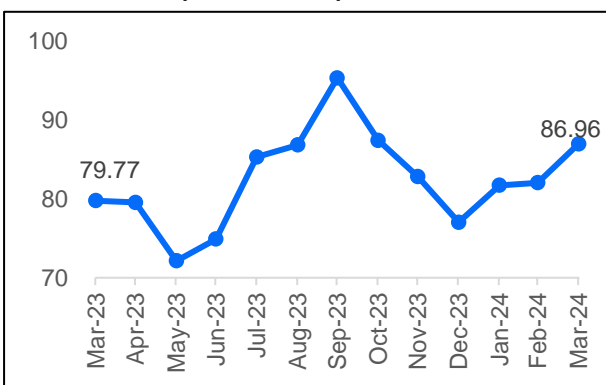
Gold Price (Rs/10gm):



	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Gold Price	59,715	58,027	57,760	63,332	66,971

Source :IBJA

Brent Crude (USD/Barrel):



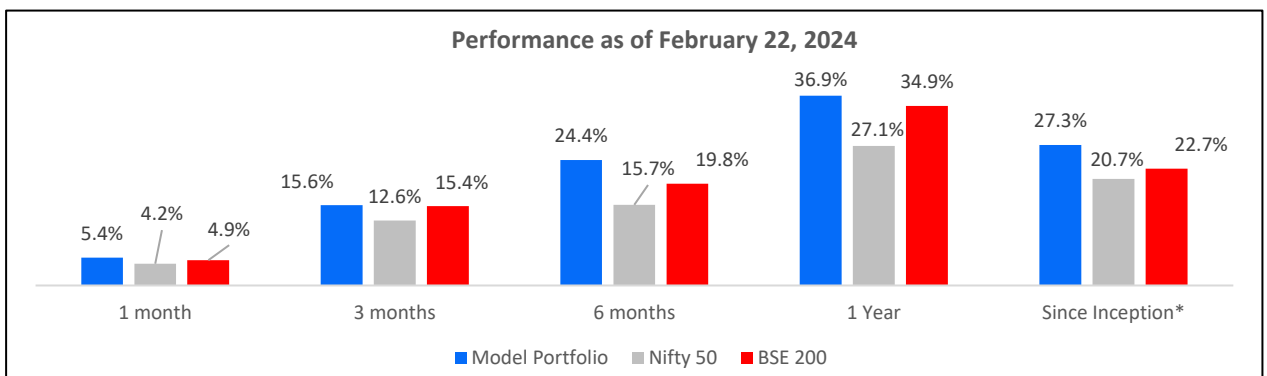
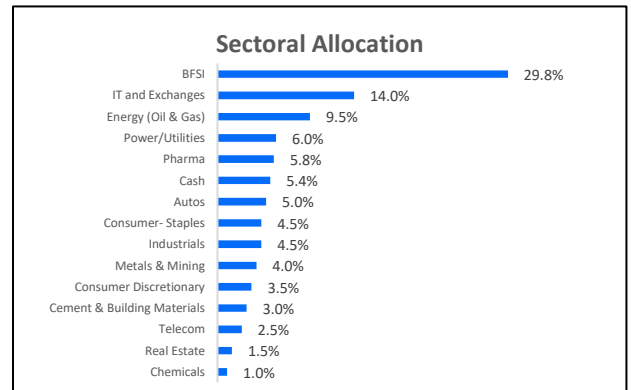
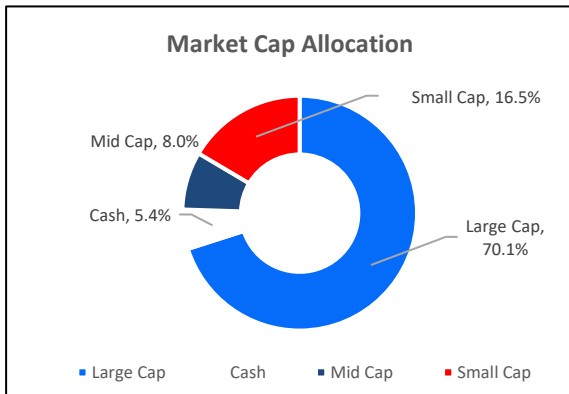
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Brent Crude	79.77	74.90	95.31	77.04	86.96

Source : investing.com

Portfolio Details:

Stock	%
HDFC Bank	11.6%
ICICI Bank	6.5%
Infosys	6.0%
Cash	5.4%
Reliance Industries	5.0%
Axis Bank	3.5%
ITC	3.5%
State Bank of India	3.0%
Larsen & Toubro	3.0%
Maruti Suzuki India	2.5%
Bharti Airtel	2.5%
Tata Consultancy Services	2.0%
Tata Steel	2.0%
NTPC	2.0%
PG Invit	2.0%
Federal Bank	1.5%
ICICI Prudential LI Co.	1.5%
Crompton Consumer	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%
Motherson Sumi Wiring India	1.0%
Canfin Homes	1.0%

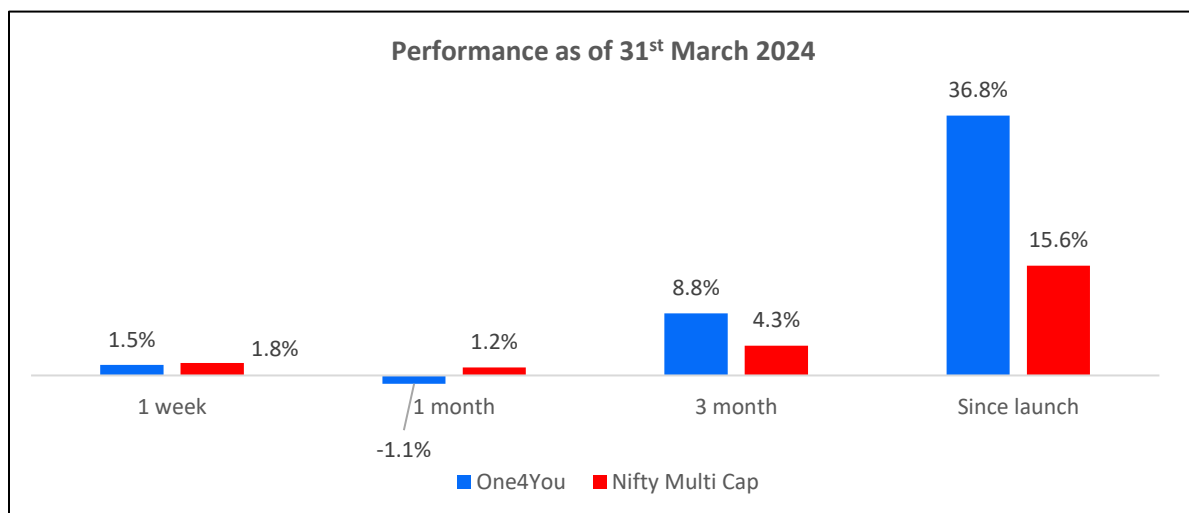
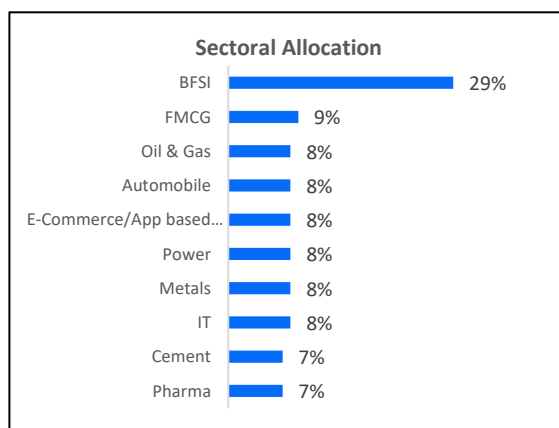
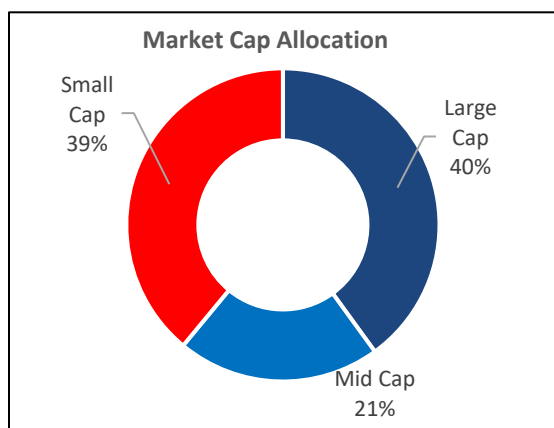
Stock	%
United Spirits	1.0%
TV18	1.0%
PVRInox	1.0%
HCL Technologies	1.0%
Mphasis	1.0%
Tech Mahindra	1.0%
MCX	1.0%
BSE	1.0%
Teamlease	1.0%
Oil & Natural Gas Corp	1.0%
GAIL India	1.0%
Indraprastha Gas	1.0%
Mahanagar Gas	1.0%
Hindalco Industries	1.0%
SAIL	1.0%
J K Lakshmi	1.0%
Stylam Industries	1.0%
Dalmia Bharat	1.0%
Aarti Industries	1.0%
PGCIL	1.0%
CESC	1.0%
Torrent pharma	1.0%
Divis labs	1.0%
Dr Reddy's Laboratories	0.8%
Hero MotoCorp	0.5%
Bharat Petroleum Corp	0.5%



Details as of 22nd Feb, Returns in absolute terms except since inception. Inception date – 28-Feb-20, *Annualized

Portfolio Details:

Stock	%
Tech Mahindra	8%
Tata Steel	8%
GAIL (India)	8%
ICICI Lombard General Insurance Company	8%
ICICI Bank	8%
Hero MotoCorp	8%
Sobha	7%
Info Edge (India)	7%
CESC	7%
Ashoka Buildcon	7%
MCX	6%
ICICI Securities	6%
Indraprastha Gas	6%
Crompton Greaves Consumer Electricals	6%

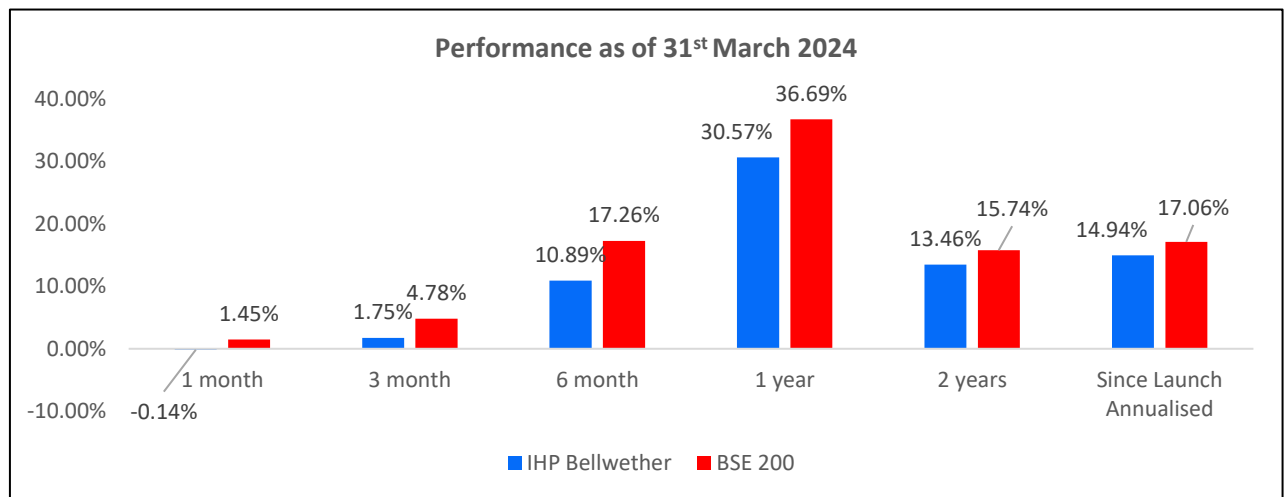
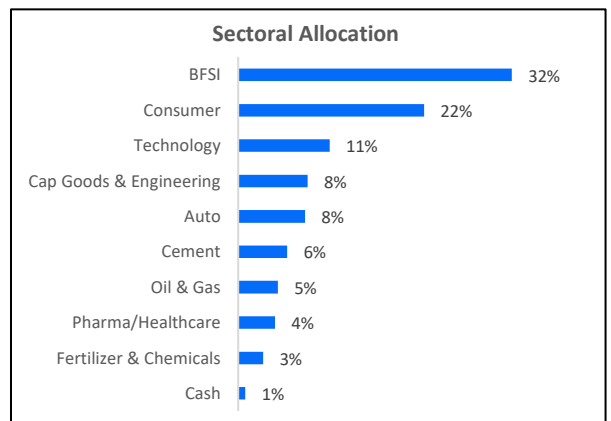
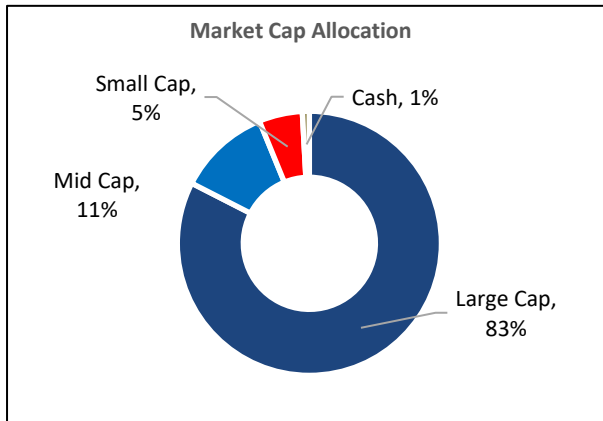


Details as of 31st March 2024, Returns in absolute terms. Inception date – 13-Sep-23,

Portfolio Details:

Stock	%
Larsen & Toubro	6.4%
State Bank of India	6.3%
Ultratech Cement	5.7%
Maruti Suzuki	5.4%
ITC	5.4%
SBI Life	5.2%
ICICI Bank	5.2%
United Spirits	5.0%
Reliance Industries	4.8%
Nippon Life AMC	4.4%
Havells	4.3%
Dr Reddy's Laboratories	4.2%
Bank Bees	4.0%

Stock	%
Kotak Mahindra Bank	3.9%
Marico	3.8%
LTI Mindtree	3.5%
TCS	3.5%
Muthoot Finance	3.2%
Kajaria Ceramics	3.1%
Infosys	3.1%
Sudarshan Chemical	3.1%
Bharat Forge	3.0%
KNR Construction	2.2%
Cash	0.9%
Jio Financial Services	0.6%

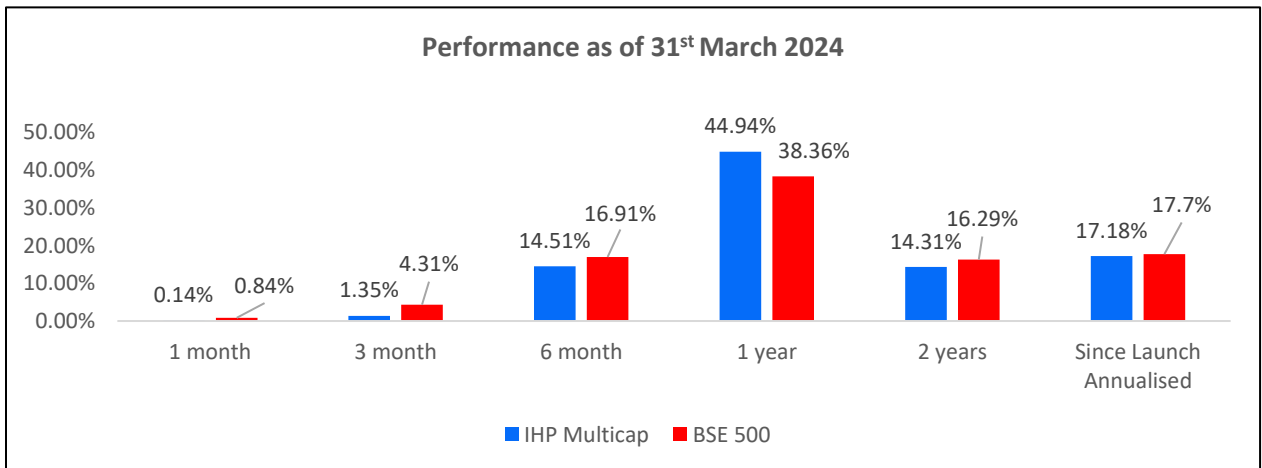
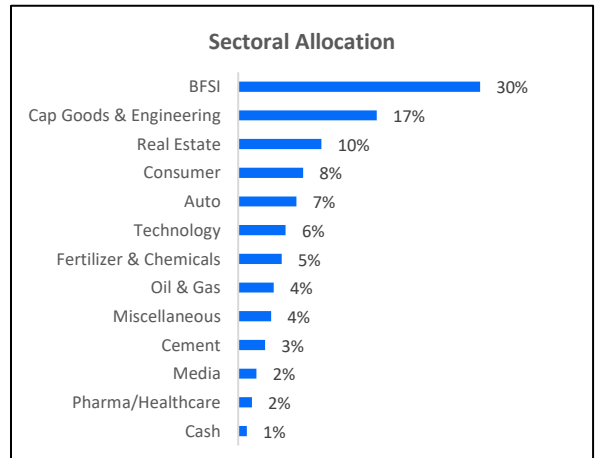
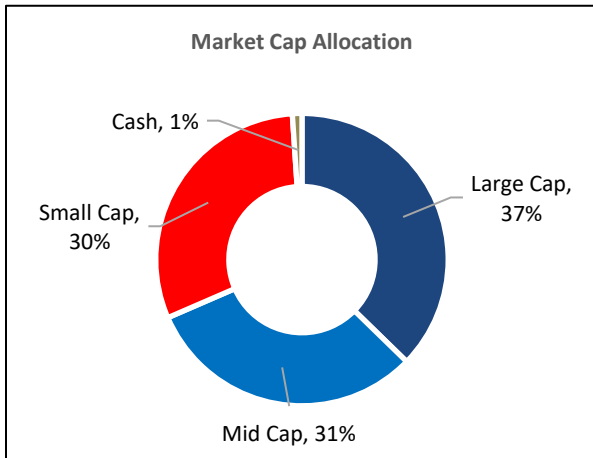


Details as of 31st March 2024, Returns in absolute terms except since inception. Inception date – 6-Apr-21, *Annualized Returns are provisional

Portfolio Details:

Stock	%
Phoenix Mills	6.0%
SBI	5.5%
KEI Industries	5.3%
Axis Bank	4.8%
Kotak Mahindra Bank	4.6%
Larsen & Toubro	4.6%
Reliance Industries	4.4%
Bank of Baroda	4.3%
Godrej Properties	4.2%
Uno Minda	4.1%
Supreme Industries	4.1%
PNC Infra	3.9%
Angel One	3.8%
ICICI Pru Life	3.7%

Stock	%
Navin Fluorine	3.5%
Birla Corporation	3.3%
GR Infra	3.3%
Infosys	3.0%
Voltas	3.0%
Gabriel India	3.0%
Bank Bees	3.0%
Indiamart Intermesh	2.8%
Crompton Consumer	2.5%
Somany Ceramics	2.4%
Saregama India	2.2%
Atul	1.8%
Laurus Labs	1.7%
Cash	1.1%

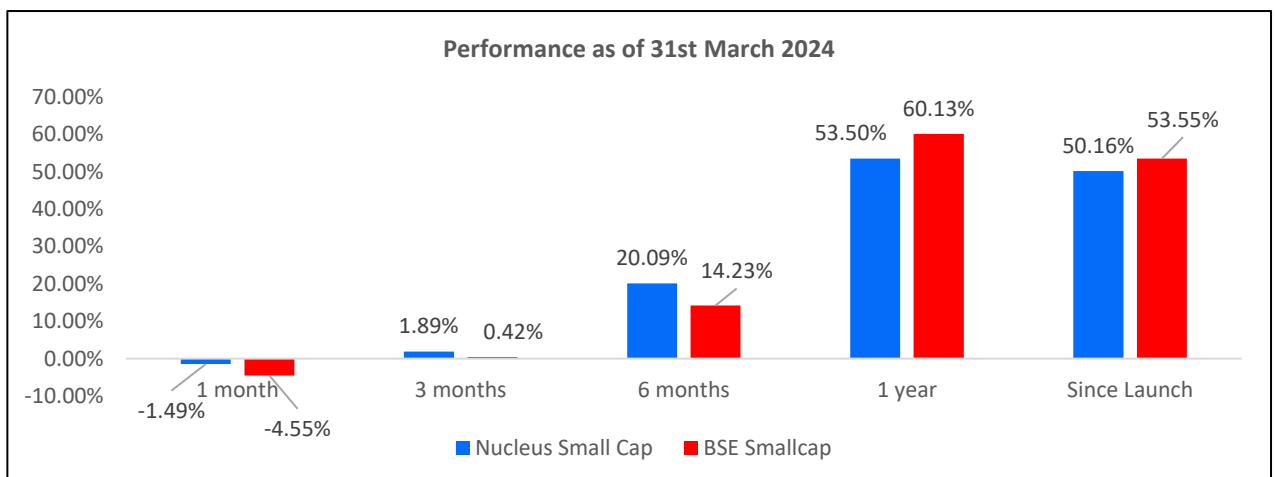
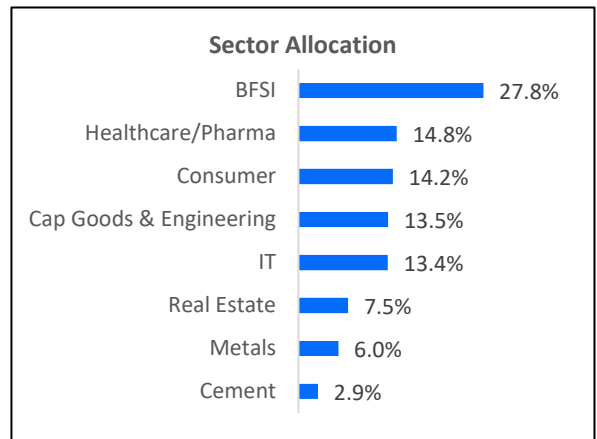
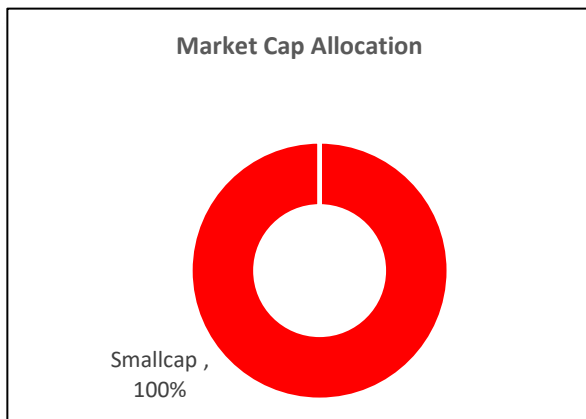


Details as of 31st March 2024, Returns in absolute terms except since inception. Inception date – 6-Apr-21, *Annualized Returns are provisional

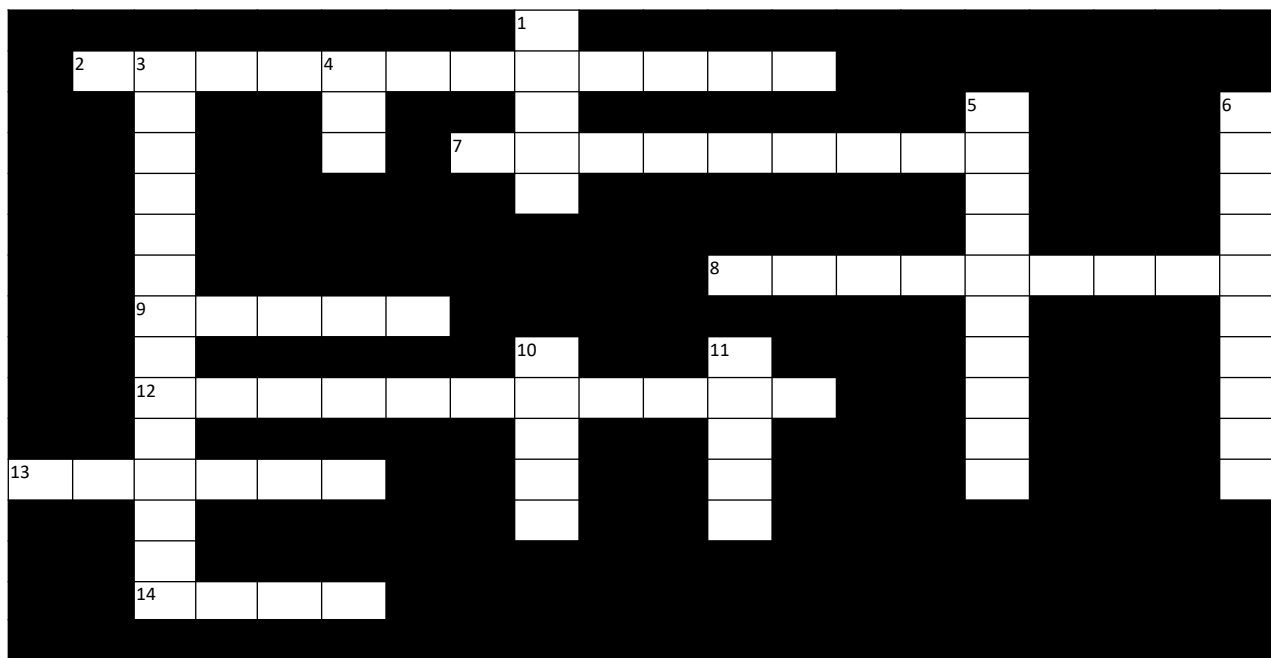
Portfolio Details:

Stock	%
KEI Industries	7.9%
J B Chem & Pharm	7.8%
Blue Star	7.7%
MCX Ltd	7.6%
Brigade Enterprises	7.5%
Cyient	7.0%
Krishna Institute of Medical Sciences	7.0%
Birlasoft	6.5%
Equitas SFB	6.1%
Ratnamani Metals & Tubes	6.0%

Stock	%
Cholamandalam Financial Holdings	5.3%
Westlife Foodworld	4.3%
PNC Infratech	3.2%
JK Lakshmi Cement	2.9%
Can Fin Homes	2.8%
CreditAccess Grameen	2.7%
Carborundum Universal	2.3%
Radico Khaitan	2.1%
Karur Vyasya Bank	2.1%
BSE Ltd.	1.2%



Details as of 31st March 2024, Returns in absolute terms. Inception date – 16-Feb-23



Across

- 2 Government strategy to manage expenditures and taxes to influence the economy(6,6)
- 7 Promise to repair or replace(9)
- 8 A bond issued with the intention of funding environmentally friendly projects. (5,4)
- 9 Global standard for payment and securities trade transactions (Acronym)(5)
- 12 Fake money(11)
- 13 ____ ratio describes excess return you receive for the volatility of holding a riskier asset(6)
- 14 Mutual funds eligible for tax deductions under provisions of Section 80C of the Income Tax Act, 1961 (Acronym)(4)

Down

- 1 Shares offered by a company to its shareholders for free(5)
- 3 Asset's true value, regardless of market price (9,5)
- 4 A financial instrument issued by a bank that represents a foreign company's publicly traded securities. (acronym)(3)
- 5 A person or organization fallen behind on mortgage repayments(10)
- 6 A line that plots interest rates of bonds having equal credit quality but differing maturity dates, at a given point in time.(5,5)
- 10 A sudden, severe downturn in stock market.(5)
- 11 Credit information company operating in India(acronym)(5)

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

CROSSWORDS

Where words meet wit



AI Generated

Answers to last month's crosswords:

Across	Down
1 Backwardation	2 Insurance
6 Margin Call	3 Small Finance
7 Straddle	4 Index Funds
9 P2P	5 Breach
11 Line of credit	8 Theta
13 Cash	10 Portfolio
14 Intangible	12 NFT

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