RH SUPERVALUE

DEC'23 NEWSLETTER

RIGHT HORIZONS
Guiding you in achieving your goals...

Dear Investors,

Domestic markets have rallied to new peaks supported by healthy earnings growth, stable macro, expectations of political continuity, anticipated rate cuts in 2024 as inflation gradually cools down to target margins.

Q2FY24 PERFORMANCE

- The corporate earnings for the second quarter of fiscal year 2024 concluded on a positive note, marked by strong overall performance due to favorable margin trends.
- BFSI (Banking, Financial Services, and Insurance) and Automobiles continued to be primary contributors to incremental earnings.
- The trend of decrease in input costs, contributed to improved profitability for companies despite a modest year-on-year topline growth.
- The Nifty index outperformed expectations, achieving a 28% year-on-year growth in Profit After Tax. Notably, BPCL, HDFC Bank, Tata Motors, JSW Steel, and Reliance Industries, accounted for nearly 68% of the incremental year-on-year earnings growth. We expect Nifty EPS to grow ~24% in FY24.
- Our inclination leans towards Financials (Banks & NBFC), Building Materials Segment, Automobiles, Healthcare and Consumer Discretionary.

BANKS

- Driven by healthy business growth and sustained improvement in asset quality banks have reported a healthy performance in Q2FY24.
- The trend in margins remains under pressure, primarily due to an increase in the cost of funding.
- Credit expansion persists, marked by robust growth in the Retail and MSME sectors, alongside an expansion in the corporate book.
- The growth in deposits remained strong, primarily driven by an increase in term deposits. Nevertheless, the industry-wide trends in CASA (Current Account Savings Account) continue to show sluggishness, leading to a sequential increase in funding costs across the sector.
- Improvement in fresh slippages led to improvement in asset quality across most banks. Additionally, sequential decrease in GNPA and NNPA ratios was observed due to improved recoveries and upgrades, maintaining a healthy Provision Coverage Ratio (PCR). Furthermore, there was a continued reduction in the restructured and SMA book.
- Momentum in earnings growth is anticipated to continue in H2 driven by strong traction in loan growth and benign credit costs. NIM is likely to continue moderating due to the ongoing re-pricing of liabilities and the outlook for asset quality remains positive.

NBFC

- Micro Financiers (MFIs): Demand remained robust, supported by the expansion of NIM. Healthy growth in disbursements, accompanied by an improvement in asset quality.
- HFCs/AHFCs: Moderation in NIM across majority of HFCs and AHFCs driven by in the sustained increase the cost of borrowings and moderation in yields. Demand for affordable housing loans remained strong. AHFCs demonstrated a seasonal decline in asset quality.
- Diversified financiers: Personal/unsecured loans now seeing some growth moderation because of higher delinquencies.
- Vehicle financiers: NIMs expanded sequentially due to healthy business growth momentum.

AUTO

- Healthy performance was driven by- i) traction in high-end SUV demand, ii) notable growth in MHCVs, and iii) early-stage recovery in 2Ws.
- Challenges continue for exports
- Margins continue to expand due to softening of raw material costs. The favorable impact of raw material tailwinds is expected to gradually diminish.
- We anticipate that two-wheeler sales volumes are likely to remain steady, driven by new vehicle launches (premium) and prolonged replacement demand, supported by the growth narrative in India.
- Margin expansion will be dependent on a richer product mix, higher realization, and operating leverage.
- The emphasis on premiumization and the focus on EVs will contribute to an higher content per vehicle, subsequently enhancing profitability for ancillaries.

HEALTHCARE

- A seasonally strong quarter, driving occupancy and margins.
- Hospitals are currently prioritizing capacity expansion within their existing facilities and adopting asset-light models, aiming for quicker breakeven periods and improved return ratios. Many hospitals are considering network expansion through both organic growth and mergers and acquisitions.
- Competitive pressure in the diagnostic industry is alleviating, as online competitors are scaling back on discounts to pursue sustainable and profitable growth.

CONSUMER

- Delay in festive season impacted the performance of branded apparel & retail companies barring exceptions such as Trent and Titan which delivered strong double-digit growth during the quarter. Barring the two businesses most retail companies observed stagnant to a marginal decline in the same stores sales.
- Impacted by weak demand, high store addition and competitive intensity in specific categories QSR chains continue to report subdued performance.
- The hospitality segment is expected to sustain its momentum, while QSR and retail are anticipated to recover in the second half. The festive demand is likely to result in a positive uptick for discretionary companies.

IT

- Weaker performance by IT service companies in a seasonally strong quarter
- Infosys & HCLT surprised the market as the companies cut revenue guidance on the back of multi-year mega deal signings signaling at a challenging H2.

PORTFOLIO & BENCHMARK PERFORMANCE

RH Supervalue topline grew 25.4 per cent on a YoY basis as against the 3.2 per cent by the benchmark. The fund's bottom line grew 28.2 per cent compared to 25.8% by the benchmark, and sequentially profit after tax grew by 13.1 per cent against benchmark's 1.8%.

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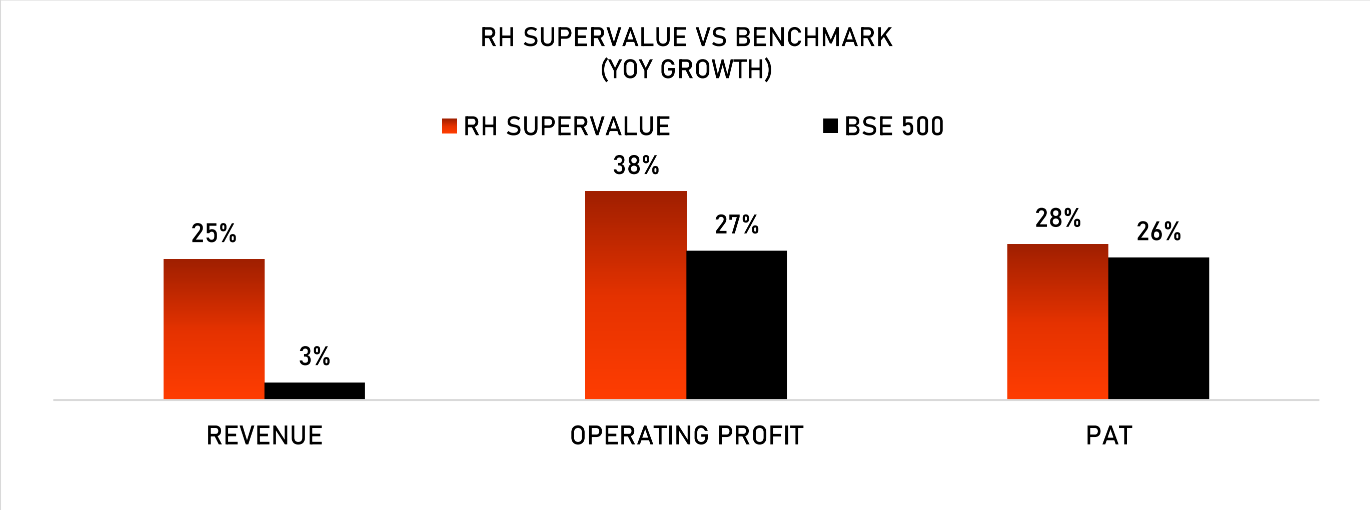

OUTLOOK

Indian economy is at a long-term secular megatrend where relationship with the historical is being muddled with distinct secular drivers creating inflection that are of greater prominence for the current investment landscape. The risks to the macro are skewed towards the global slowdown, spiking oil prices and geo-political mayhem that seed intermittent periods of volatility in the Indian equities market.

The foundation for our optimism lies in the narrative that India is advancing globally positioning itself as the fastest growing major economy. GDP growth during the first half of FY24 has been robust exceeding expectations. Earnings in H1FY24 has been healthy and we anticipate robust annual earnings growth over the next three years, driven by multi decadal growth outlook for the economy, healthier corporate balance sheets, expanding capex trend focused around infra, a multiyear credit cycle for financials, a structural increasing trend in discretionary consumption and a dependable reservoir of domestic capital.

Key Risks: Weak rural demand and slump in global demand.

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