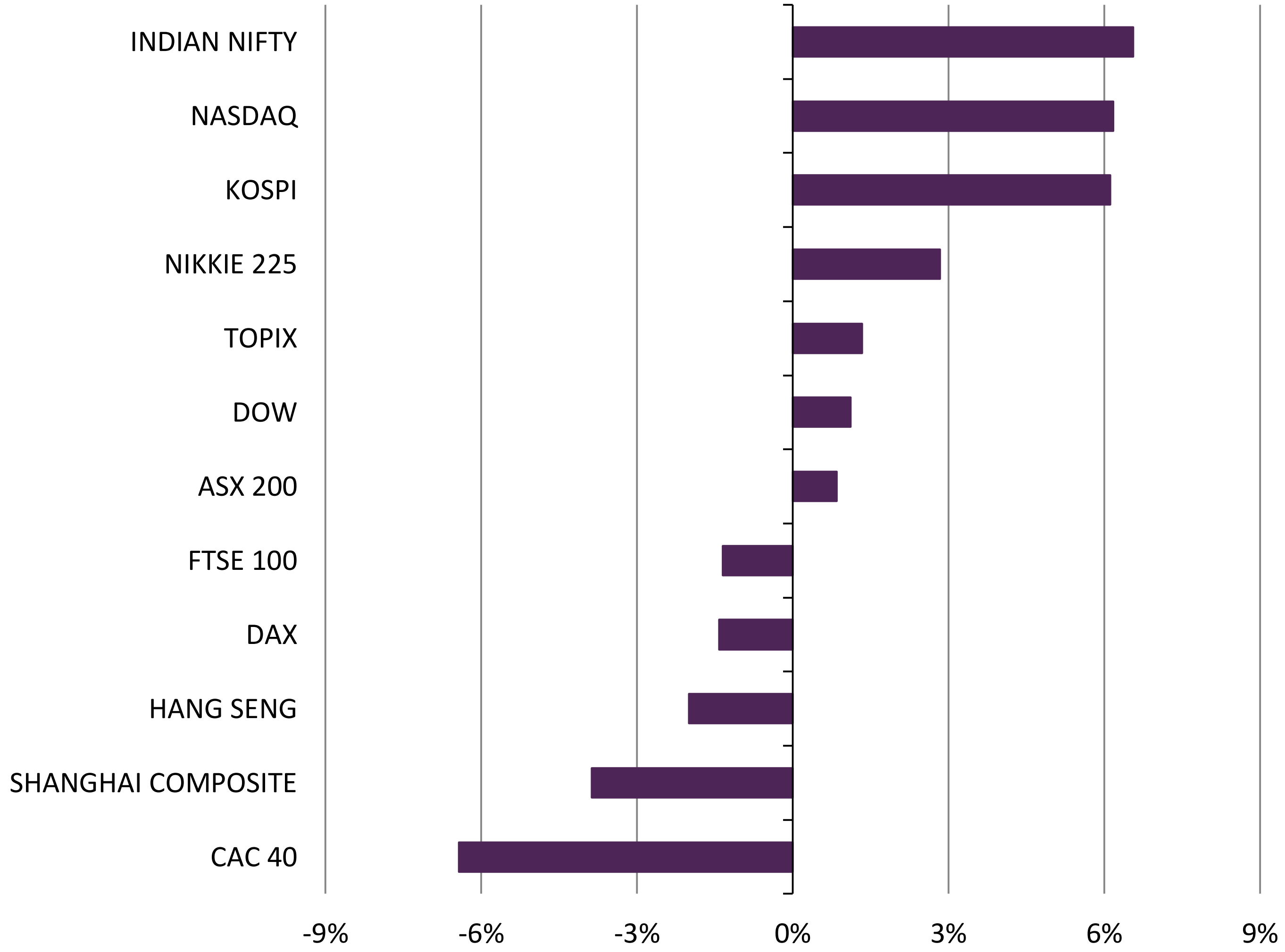
BESPOKE

Advice for a select few

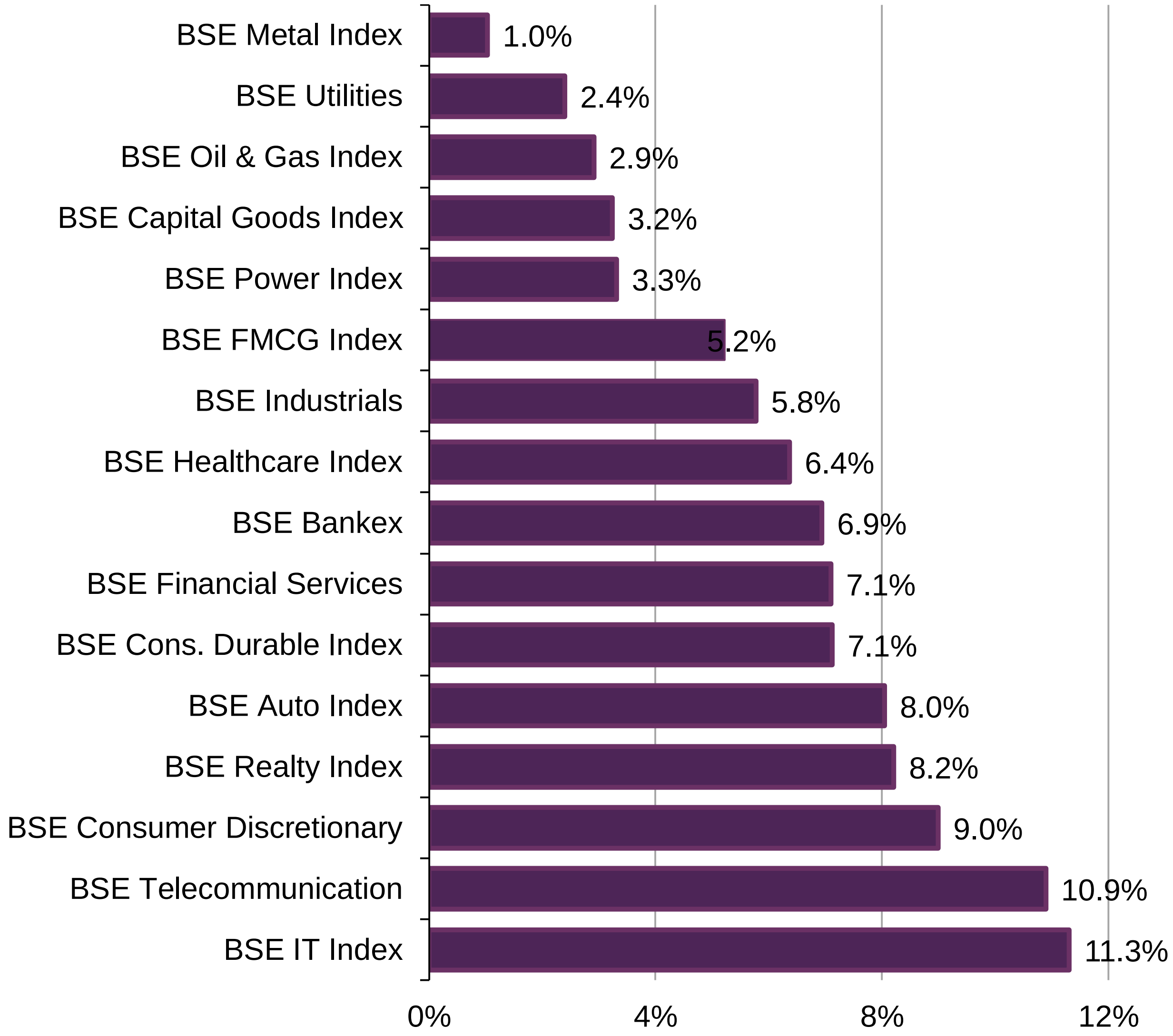
ANANDRATHI
PRIVATE CLIENT GROUP
EQUITY
PCG

Equity Investing: *Global Markets Update*

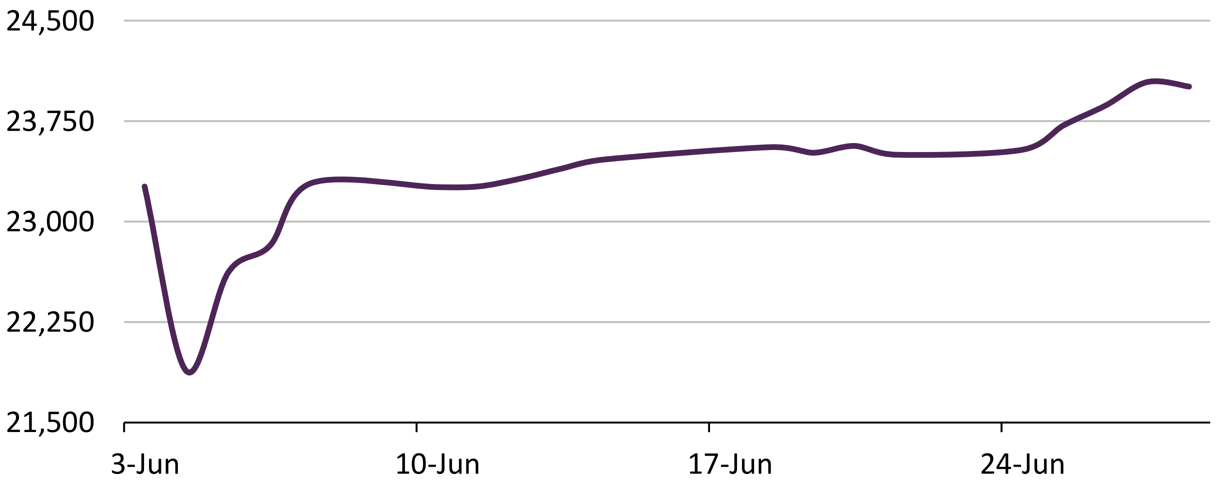
Global Markets performance in Jun-24



Sector wise performance during the month

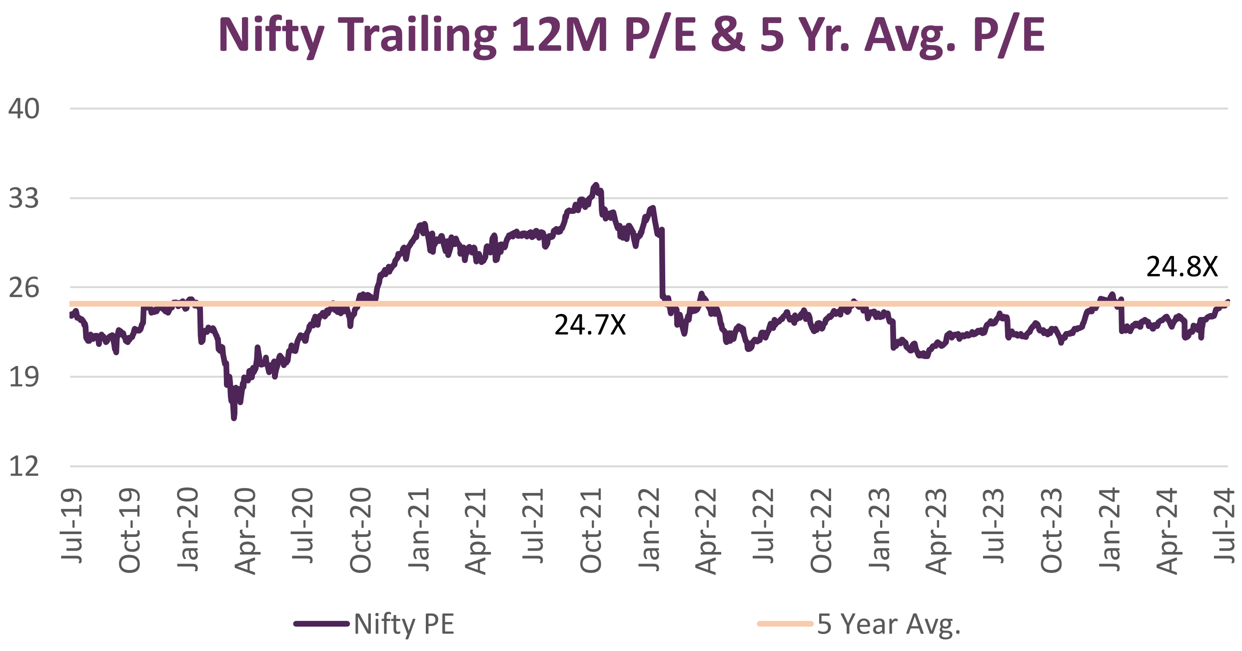


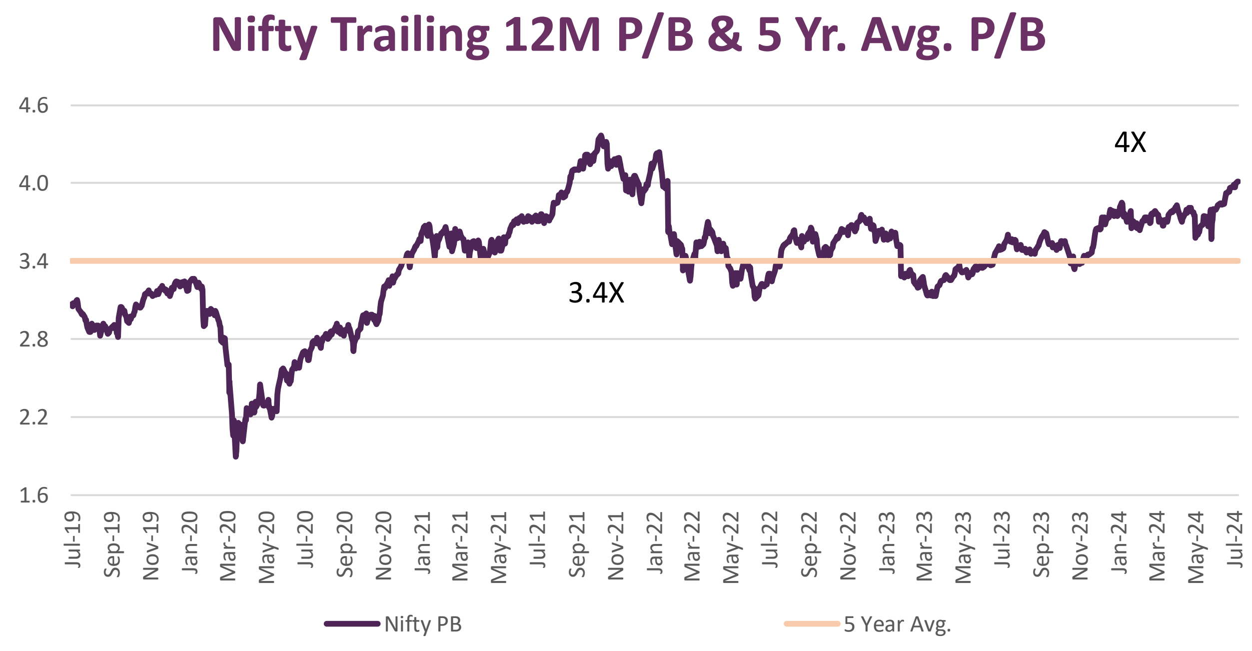
NIFTY Performance in Jun 2024



NIFTY monthly performance for trailing 12 months

Equity Investing: *Index valuations*

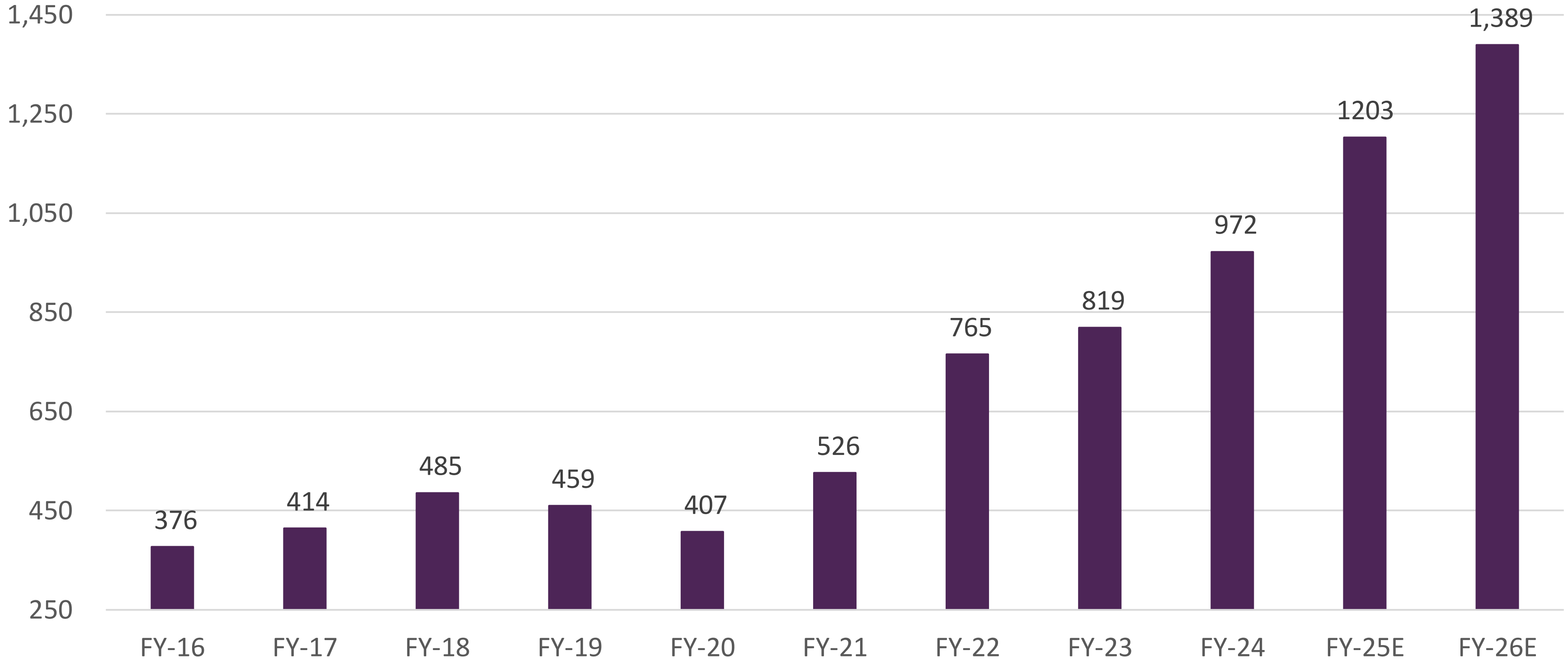




- Currently Nifty50 is trading at around 24.8x its trailing 12 month earnings while its five year historical average price to earnings ratio stands at around 24.7x. Almost at par from its five year historical average.
- In terms of price to book ratio, the Nifty50 is trading at around 3.7x its book value while its five year historical price to book ratio stands at around 4x, a premium of 18% to its five year historical average.

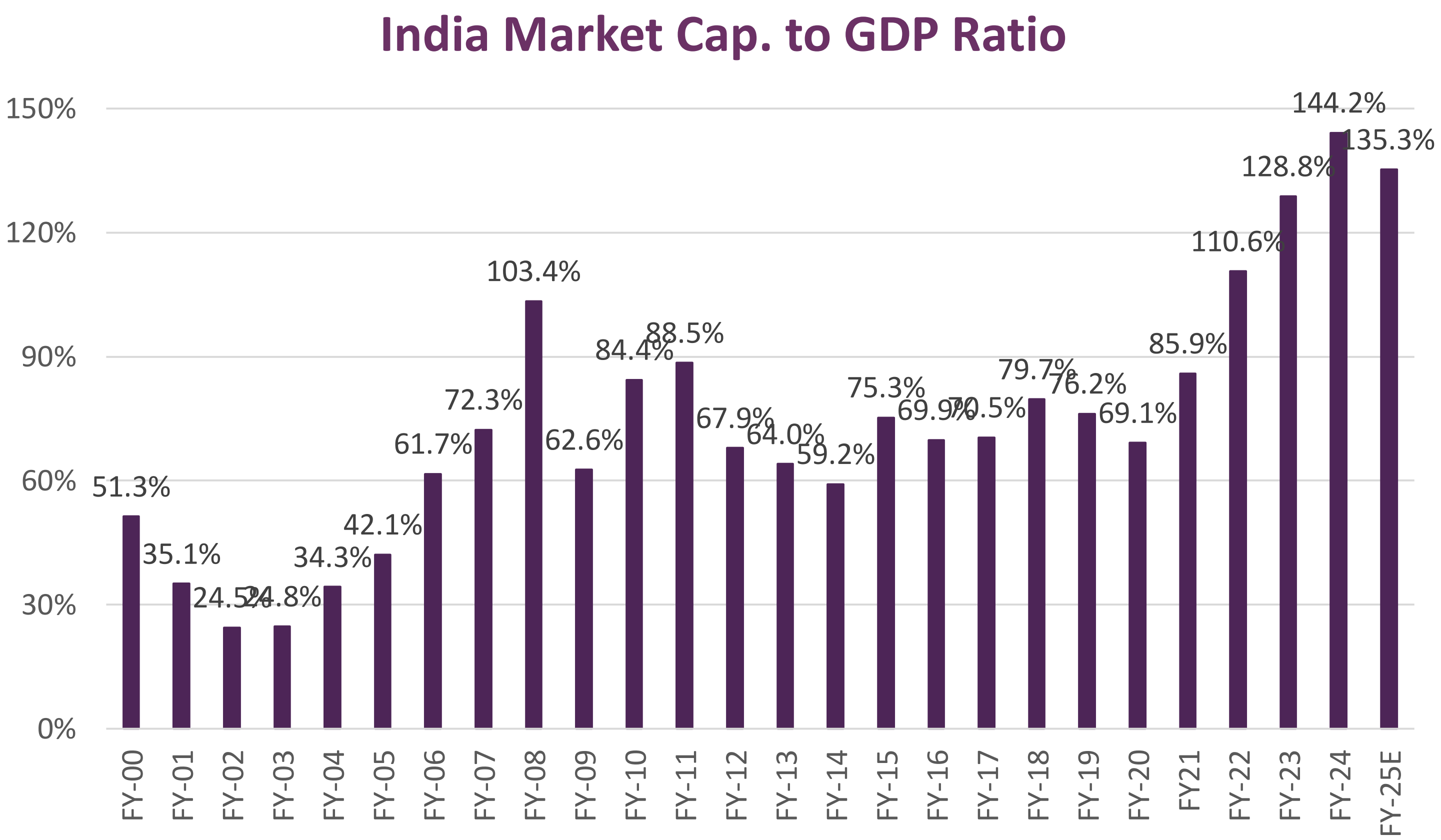
Equity Investing: *Index valuations contd.*

Nifty Historical and Estimated EPS (Consensus)



- From the financial year 2023 EPS the consensus estimates for Nifty50 from FY-24 to FY-26 expects earnings to grow at a CAGR of about 19.5%.

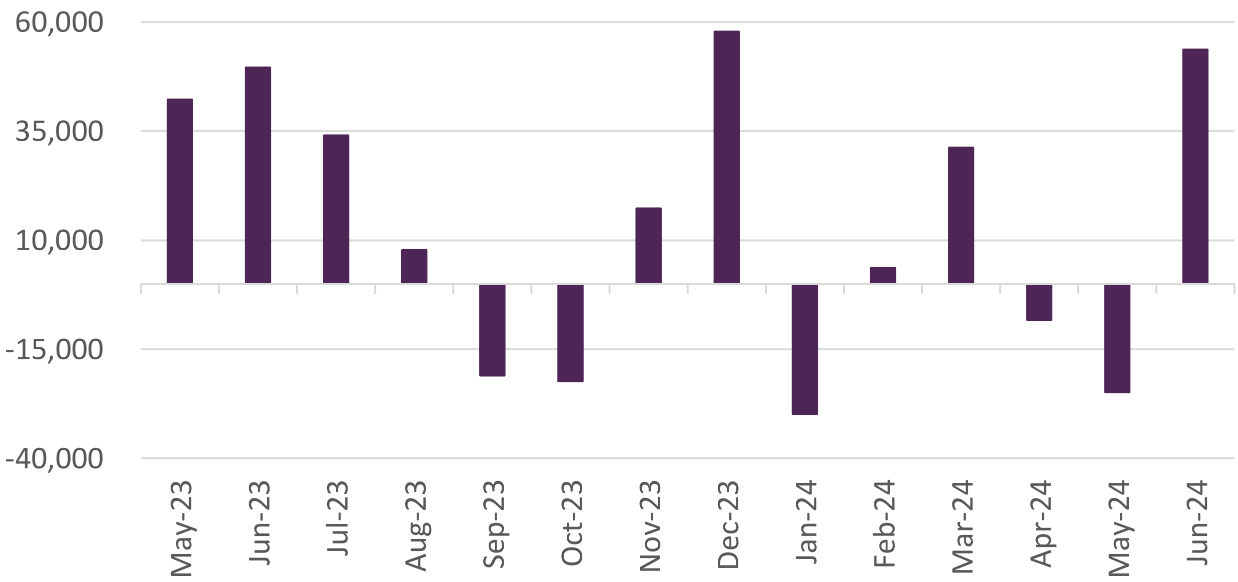
Equity Investing: *Broader Market valuations*



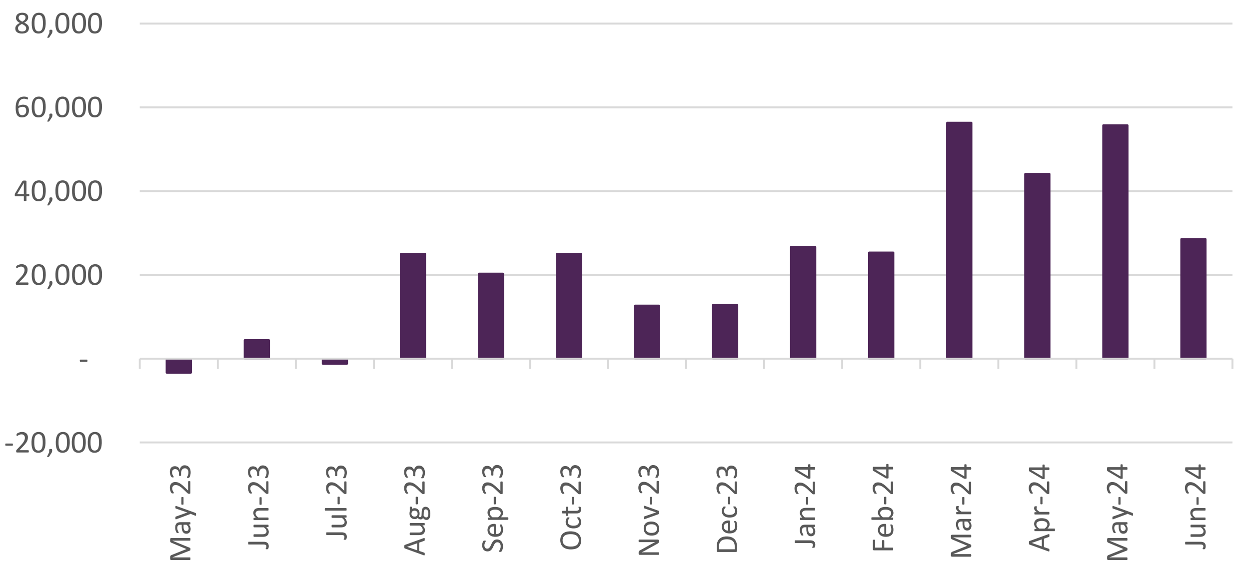
- Currently India's listed companies market capitalisation to GDP ratio stands at about 135% (FY-25E). The ratio is considered an indicative of overall equity market sentiments and cycles.
- The ratio is considered an indicative of overall equity market sentiments and cycles.

Equity Investing: Big *Money Flow*

FII Monthly Inflows in Equity (₹ Crore)



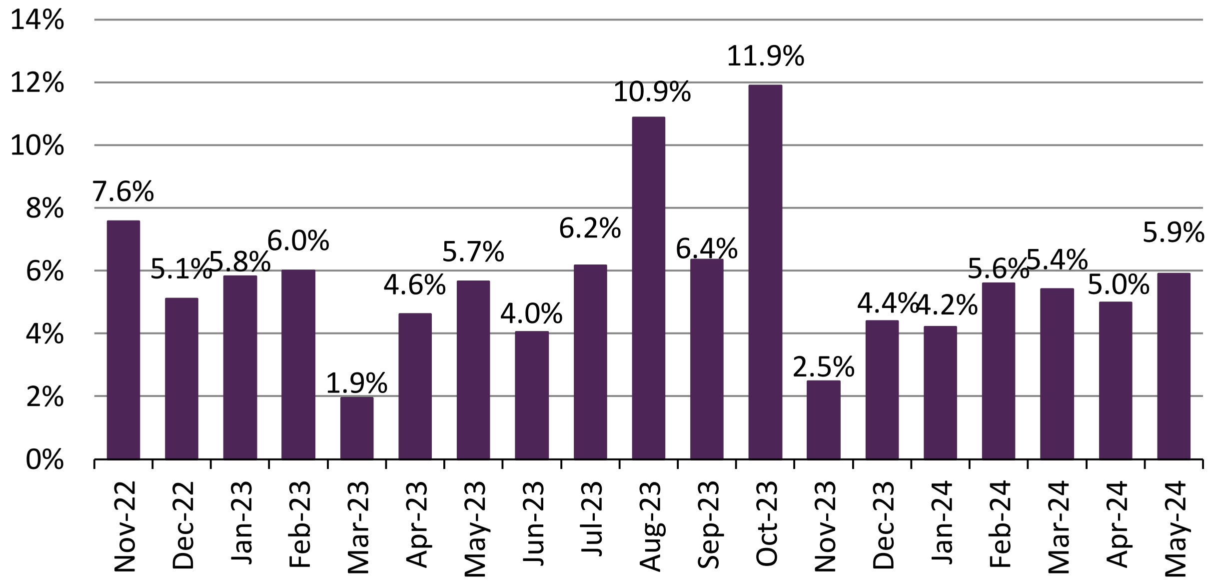
DII Monthly Inflows in Equity (₹ Crore)



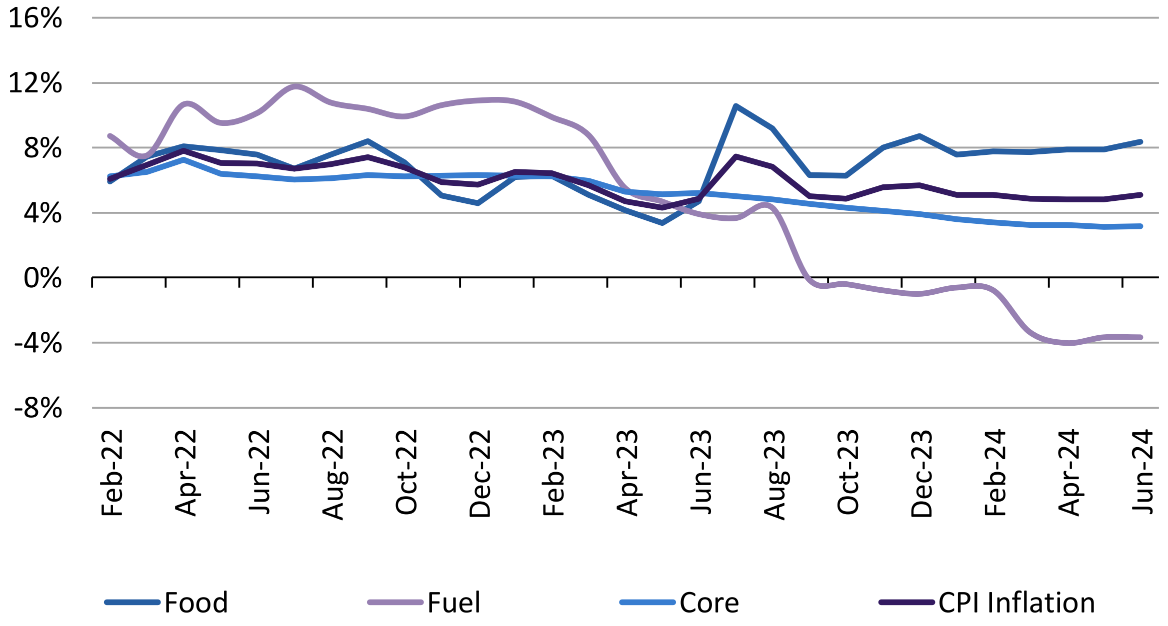
- FII monthly inflows for the month of Jun-24 has seen net inflows of almost ₹53,664 crores, which is second highest flow for the year.
- On the other hand, domestic funds have seen monthly net inflows of around ₹28,633 crores, an eleventh consecutive net inflow in last 12 months.

Equity Investing: Growth & Inflation

IIP Growth (%) trend (2011-12 base)



Food, Fuel, Core & CPI Inflation (%) YoY



- Index of Industrial Production (IIP) data for the latest month May-24 maintained its positive momentum for the year. The index stood at 5.9% for the month..
- Latest inflation data released showed increase in YoY CPI inflation . Inflation was seen largely impacted by increase in Food inflation to 8.4% while Core inflation remained at 3.1%. Fuel inflation slowed to -3.7%.

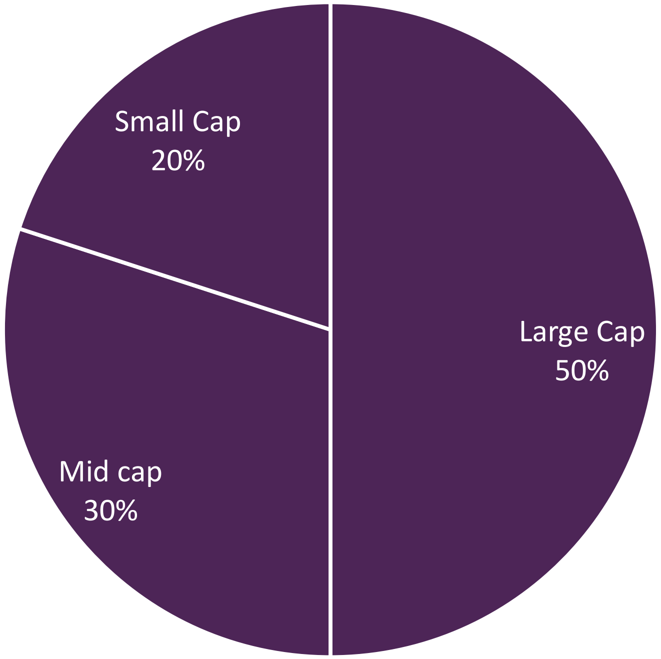
Top Ideas

S.No.	Large Cap
1	ICICI Bank Ltd.
2	ITC Ltd.
3	Tata Steel Ltd.
4	Bharti Airtel Ltd.
5	Infosys Ltd.
6	Siemens Ltd.
7	Hindustan Unilever Ltd
8	Divi's Laboratories Ltd.
9	State Bank Of India
10	Tata Consumer Products Ltd

S.No.	Mid Cap
1	Astral Ltd.
2	APL Apollo Tubes Ltd.
3	Balkrishna Industries Ltd.
4	KEI Industries Ltd.
5	Dixon Technologies Ltd.
6	Sona BLW Precision Forgings Ltd.

S.No.	Small Cap
1	CIE Automotive India Ltd.
2	CE Info Systems Ltd.
3	Chalet Hotels Ltd.
4	Electronics Mart India Ltd.

NOTE: The strategy has shifted from individual weight based to equal distribution.



FISCAL CONSOLIDATION LIKELY DESPITE CONTINUED STRONG PUBLIC CAPEX

Tax buoyancy likely to rise	The average gross tax buoyancy in the last five years has been close to one due to numerous shocks. We expect it to rise to 1.2
Conservative tax growth estimate	Greater buoyancy with 11-12% nominal GDP growth is likely to increase gross tax 13-15%. We estimate it at 11% in FY25
Jump in non-tax revenue	Although small, with a huge increase in profits transferred by the RBI and a likely rise in PSU dividends, we expect strong growth
Factoring in rise in revenue spending	With a sharp fall in subsidies and flattish growth in other revenue spending, this component was subdued. Building in acceleration
Buoyant public capex	We expect fast pace of public capex to continue though the focus may change. Estimating robust growth but a deceleration
Continued consolidation	With favourable revenue situation, we expect fiscal consolidation to continue despite acceleration in revenue and strong capex spending

BUDGET MEASURES

A PRO-GROWTH BUDGET WITHOUT POPULISM

Populism unlikely	While the government is likely to continue with targeted welfare schemes, we see little reason for a populist budget
No big bang for employment	Despite adverse perceptions and demand for job reservations, official data suggests a healthy job market and no need for big measures
Rural/agro likely to be focus areas	The need to bridge the rural-urban living gaps and certain adverse factors, we expect rise in allocations for the rural / agro sector
Personal tax relief likely	With no relief in nearly 10 years, considerable inflation in this period and need to boost consumption, we expect relief to income taxpayers
High public capex to continue	The government is likely to continue with huge public capex, focusing specially on housing, renewable energy and water
Pro-growth measures	Continued strong capex spending and faster revenue spending to boost growth. Favorable fiscal situation to support fiscal consolidation

CONTINUITY OF CAPEX, FISCAL CONSOLIDATION WITH CONSUMPTION BOOST

Expectations for the coming budget, as always, are high and sometimes contradictory such as simultaneous advocacy for tax cuts, greater spending and fiscal consolidation. Some of the recommendations also go beyond the scope of the budget such as MSP and GST rates. Yet, the dominant view seems to suggest that the budget would continue focusing on mounting public capex, creating more gainful employment opportunities by making India a major manufacturing hub, promoting entrepreneurship by improving the conditions of doing business and providing targeted welfare schemes to vulnerable sections. It is also expected that the budget will maintain the glide path toward fiscal consolidation by maintaining the fiscal deficit between 4.9 and 5% of GDP. While maintaining the focus on investment, it is expected to announce measures to boost consumption, especially rural

CONSENSUS EXPECTATIONS

INFRASTRUCTURE

Continuation of huge allocations for public investment in infrastructure with specific focus on renewable energy, CGD and water

MANUFACTURING

Widening the Production-linked Incentive (PLI) scheme, including for the MSME segment. Improvement in conditions for doing business

AGRICULTURE

Increased budget allocation for agri / rural infrastructure, and for Kissan Samman Nidhi.
Higher credit flows to agriculture

EMPLOYMENT

Employment-linked incentive scheme, PLI benefit for the Services sector, implementation of new education policy for job-oriented skill creation

TAXATION

Raising exemption limit and standard deduction for income tax.
Rationalising capital gains tax.
De-criminalising certain tax offences

RURAL ECONOMY

Increased allocation for rural infra including roads. Greater subsidies for rural housing. Spreading financial inclusion through digital banking

LIKELIHOOD OF A POPULIST BUDGET IS LOW

Sharp reduction in poverty

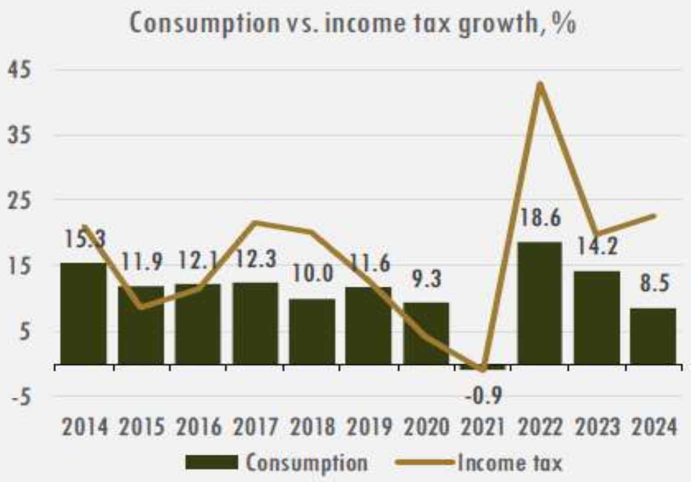
In recent years, (nominal) growth in private consumption has sharply decelerated, coupled with robust growth in personal income tax collection. This has generated the perception that, in India, the rich are getting richer and the poor, poorer. Yet, data clearly suggests that all types of poverty in India have reduced dramatically. Even by the broad indicator of poverty (PPP income of $3.65 a day), the proportion of people below the poverty line has fallen from 32% to 13% in the last 20 years. Household consumption survey data also show greater consumption patterns among low-income groups

High inequality, but slow upward mobility

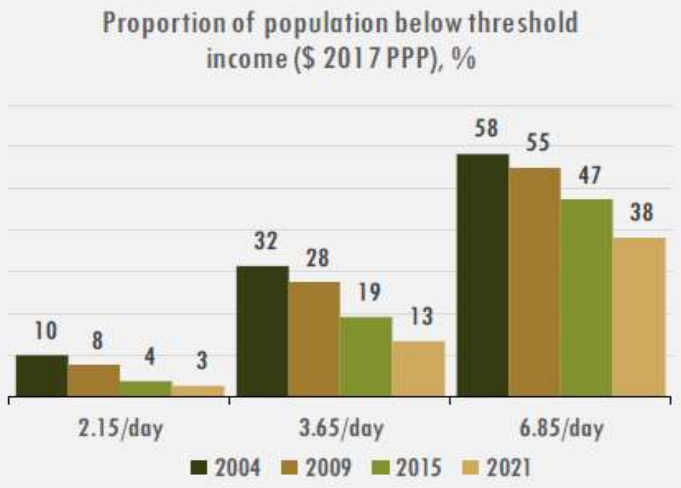
IT-filing data show that the ratio of people with annual income below Rs0.5m (at constant prices) has fallen more than 7% points over AY15-AY23 but is still high. With the share of income of the bottom 68% of the population at 37% and the top 2% at 22%, income inequility in India is high. Yet, there is upward mobility, with population in the Rs0.5-2.5m income range rising by over 6% points and those in the Rs2.5m caegroy by 1% point. Therefore, data do not corroborate the poor-getting-poorer narrative. The rich-getting-richer narrative, though, cannot be ruled out, esecially given gaps in IT filing and income/wealth data

No reason for a "populist" budget

The fewer than expected seats won by the BJP/NDA in the 2024 Lok Sabha elections, especially in states such as Maharashtra and UP has been interpreted by some as the voters' backlash against widespread poverty. To win back the poor, it is being argued that the coming budget would be a "populist" one with many welfare schemes. Yet, poverty has actually fallen steeply and, in the last ten years, low to middle income mobility has been widespread. Therefore, both the interpretation of the election outcome and possible corrective action seem eroneous. We do not expect the budget to be a populist one



Source. GoI, Anand Rathi Research



Source. World Bank, Anand Rathi Research

Income, Rs. mn, FY15 price	Share in tax filer, %		Income share, %	
	AY15	AY23	AY15	AY23
0.0 - 0.5	75.49	68.08	41.4	37.1
0.5 - 1.0	17.83	23.47	24.4	25.5
1.0 - 2.5	5.40	6.29	16.1	15.8
2.5 - 5.0	0.88	1.52	6.1	7.6
5.0 - 10.0	0.27	0.38	3.8	3.7
10.0 - 50.0	0.12	0.24	4.5	5.9
Over 50.0	0.01	0.02	3.7	4.4
Total	100.00	100.00	100.00	100.00

Note: AY: Assessment Year

Source. IT Department, Anand Rathi Research

JOB CREATION, THE MAJOR OBJECTIVE, BUT HUGE IMPETUS IN BUDGET UNLIKELY

Contrary signals

Despite surveys by a private agency suggesting high unemployment, especially among youth, all official data (EPFO, the RBI and the GoI) suggest record net job creation and unemployment at record lows. Data from other private agencies (Naukri and Foundit) show that while net job openings are off the peak, the current situation is healthy

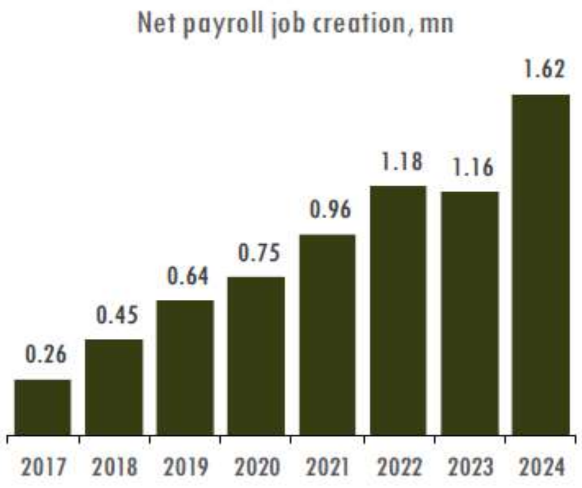
Job creation priority

Movements for caste-based job reservations (eg, Gurjars and Patidars since 2015, Jats, Kapus and Marathas since 2016) show strong demand for salaried jobs. While job creation is a major government priority, absorbing surplus agricultural workers, the self-employed, the unemployed and new job seekers in salaried job is beyond the scope of public policy

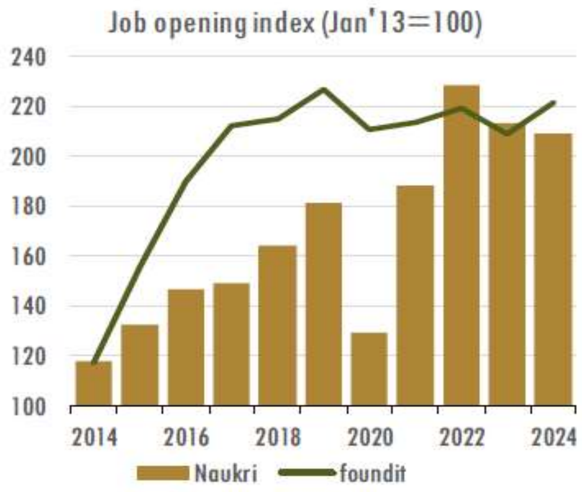
No big bang likely

The approach of the budget is more likely to be to stimulate job creation through public investment in infrastructure, improving conditions of doing business, policy support for industry, reforming education and training systems to enhance job skills, and easier access to finance for entrepreneurs. Allocation to MGNREGA is also likely to be increased

EMPLOYMENT GENERATION



Source. EPFO, Anand Rathi Research



Source. Naukri, foundit, Anand Rathi Research.

Employment, in million

	Employment	Net addition
2014-15	471	0.0
2017-18	475	1.8
2019-20	534	41.8
2020-21	566	31.2
2021-22	578	11.9
2022-23	597	19.2
2023-24	643	46.7

Source. RBI. Anand Rathi Research.

Unemployment rate, %

	Male	Female
2017-18	6.1	5.6
2018-19	6.0	5.1
2019-20	5.0	4.2
2020-21	4.5	3.5
2021-22	4.4	3.3
2022-23	3.3	2.9
Dec-2023	3.2	3.0

Source: GoI, Anand Rathi Research.

RURAL DEVELOPMENT AND AGRICULTURE LIKELY TO BE THE FOCUS

While we do not expect the coming budget to be populist, we expect agriculture and the rural economy to receive significant attention. In view of the withdrawal of the three farm laws by the previous parliament, the direction of agricultural reforms is once again uncertain. We expect the coming budget to provide a road-map for this including agricultural marketing, infrastructure creation, technology for greater productivity and stability, remunerative farm product pricing, affordable agricultural input costs and rural job creation. We expect a meaningful increase in allocation for agricultural and rural development, including rural infrastructure, direct-benefit transfers, rural housing, financial inclusion and MGNREGA. Providing facilities now available in urban areas to rural areas, and improving rural employment opportunities, income and consumption in rural areas are expected to be the prime focus of the Budget

Perception of rural distress

Since the pandemic, rural distress has been much talked about. Slow growth in private consumption, especially in non-premium categories, is being cited

Several unfavourable factors

Slow growth in farm income, weather disturbances, modest pace of MSP and high food inflation could be major factors for the stress in the rural vs. the urban economy

Urban facilities in rural areas

Enormous migration can greatly stress urban infra. The policy is to provide access to jobs, education, healthcare, fuel, power, clean water, finance, housing – in rural areas

Budget can be a catalyst

While a large part of agri/rural policies (MSP, legislative reforms) are outside the Budget, we expect significant measures in rural infra, MGNREGA and welfare schemes

EXPECT RELIEF TO INCOME-TAX PAYERS

INCREASE IN EFFECTIVE TAX RATE

For various reasons (exemptions, flat rate for capital gains tax, exemption of agricultural income), the effective tax rate is much lower. Yet, the average effective tax rate has risen in the last 10 years

NO INCOME TAX RELIEF IN A DECADE

Apart from a modest rise in the tax-free limit and lower rates for initial tax slabs, income-tax payers have had no relief. Rather, surcharges and cesses have risen in the new regime, and exemptions withdrawn

TAX CUT COULD BOOST CONSUMPTION

With inflation up more than 50% in the last 10 years and a favourable fiscal situation, we expect the coming budget to offer substantial income tax relief in the new tax regime. This would boost consumption

Effective tax rate

Income, Rs. mn, FY15 price	Effective tax rate, %	
	AY15	AY23
0.0 - 0.5	11.0	15.6
0.5 - 1.0	5.3	5.4
1.0 - 2.5	8.2	7.7
2.5 - 5.0	11.6	10.9
5.0 - 10.0	16.5	14.2
10.0 - 50.0	15.3	17.8
Over 50.0	8.2	19.8
Average	9.5	10.6

Note. Average to individual payers.

Income tax rates for AY15

Income Range (₹)	Tax Rate, %	Surcharge
0 - 2,50,000	Nil	Nil
2,50,001 - 5,00,000	10.0	Nil
5,00,001 - 10,00,000	20.0	Nil
Above 10,00,000	30.0	10% if income exceeds ₹10mn

Note. Income tax cess of 3%.

Income tax rates for AY23-24, old

Income Range (₹)	Tax Rate, %	Surcharge
0 - 2,50,000	Nil	Nil
2,50,001 - 5,00,000	5.0	Nil
5,00,001 - 10,00,000	20.0	Nil
Above 10,00,000	30.0	10% < ₹5 mn; 15% < ₹10mn; 25% < ₹20mn; 37% < ₹50mn

Note. Income tax cess of 4%.

Income tax rates for AY23-24, new

Income Range (₹)	Tax Rate, %	Surcharge
0 - 3,00,000	Nil	Nil
3,00,001 - 6,00,000	5.0	Nil
6,00,001 - 9,00,000	10.0	Nil
9,00,001 - 12,00,000	15.0	Nil
12,00,001 - 15,00,000	20.0	Nil
Above 15,00,000	30.0	10% < ₹5 mn; 15% < ₹10mn; 25% < ₹20mn; 37% < ₹50mn

Note. Income tax cess of 4%.

Source. Income Tax Department. Anand Rathi Research.

PERSONAL INCOME TAX

BUDGET EXPECTED TO BE POSITIVE FOR EQUITY MARKETS

With the focus on boosting growth and on stability through continued infra and consumption-inducing measures, the budget is likely to be positive for Indian equity. Consumer and infra/capital goods sectors are likely to be the chief beneficiaries. Despite the likely acceleration of revenue spending and continued high public capex growth, with favourable receipts, fiscal consolidation is likely to continue. We expect the FY25 fiscal deficit to be 5% of GDP. There is little reason to expect a populist budget

Auto

The sector expects the FAME subsidy to continue (FAME III) to benefit EVs, especially public buses and 2Ws

Our stock picks

- TVS Motor
- Ashok Leyland

Capital goods

Greater emphasis on PLI schemes in manufacturing and higher allocation to green energy

Our stock picks

- ABB
- Siemens
- Cummins

Consumer durables

PLI schemes for white goods and wires & cables to gain from continued infra focus

Our stock picks

- Amber Enterprises
- Crompton Greaves Consumer
- Finolex Cables

Cement

Higher outlays for roads and housing and special package for AP to help companies, especially in the south

Our stock picks

- Ultratech Cement
- Sagar Cements

Infrastructure

Regular spending on roads and railways, special focus on housing, renewable energy and water

Our stock picks

- NCC
- PNC Infra
- HG Infra

Other sectors

Consumption push to help FMCG, BFSI, retail and with specific reductions in customs duties on certain products, companies in niches in a few sectors such as chemicals and medical equipment are likely to benefit

Disclaimer:

In the preparation of the material contained in this document, Anand Rathi Group (ARG), has used information that is publicly available, including information developed in-house. Some of the material used in the document may have been obtained from members/persons other than the ARG and/or its affiliates and which may have been made available to ARG and/or its affiliates. Information gathered & material used in this document is believed to be from reliable sources. ARG however does not warrant the accuracy, reasonableness and/or completeness of any information. For data reference to any third party in this material no such party will assume any liability for the same. ARG and/or any affiliate of ARG does not in any way through this material solicit any offer for purchase, sale or any financial transaction/commodities/products of any financial instrument dealt in this material. All recipients of this material should before dealing and or transacting in any of the products referred to in this material make their own investigation, seekappropriate professional advice.

ARG (including its affiliates) and any of its officers directors, personnel and employees, shall not liable for any loss, damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, consequential, as also any loss of profit in any way arising from the use of this material in any manner. The recipient alone shall be fully responsible/ are liable for any decision taken on the basis of this material. All recipients of this material should before dealing and/or transacting in any of the products referred to in this material make their own investigation, seek appropriate professional advice. The investments discussed in this material may not be suitable for all investors as certain services and investment products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis. Any person subscribing to or investigating in any product/financial instruments should do so on the basis of and after verifying the terms attached to such product/financial instrument. Financial products and instruments are subject to market risks and yields may fluctuate depending on various factors affecting capital/debt/commodity/real estate markets. Please note that past performance of the financial products and instruments does not necessarily indicate the future prospects and performance thereof. Such past performance mayor may not be sustained in future.