1-Sep-2024

Dear Investors,

Greetings!! Our performance as of last month is as follows (Exhibit 1).

Exhibit 1: TWRR Performance (after all fees and expenses) as of 31-Aug-2024

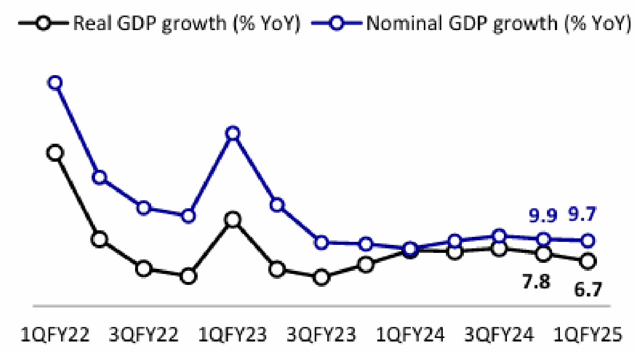
Investment Approach (Benchmark)	Inception Date	AUM (INR cr)	1M	3M	6M	1Y	Since Inception (Annualized)*
Flexicap	**11-Apr-23**	**93**	**2.4%**	**17.1%**	**24.2%**	**37.6%**	**38.6%**
(S&P BSE 500 TRI)			1.0%	12.9%	18.8%	41.1%	41.6%
(Nifty 50 TRI)			1.4%	12.6%	15.8%	32.6%	31.2%
Small MidCap	**11-Dec-23**	**147**	**4.9%**	**55.5%**	**53.6%**	**NA**	**65.0%**
(S&P BSE 500 TRI)			1.0%	12.9%	18.8%	NA	27.8%
(Nifty 50 TRI)			1.4%	12.6%	15.8%	NA	21.6%
Blend	**11-Aug-24**	**1**	**NA**	**NA**	**NA**	**NA**	**2.2%**
(S&P BSE 500 TRI)			NA	NA	NA	NA	3.6%
(Nifty 50 TRI)			NA	NA	NA	NA	3.7%
Other AUM		**175**					
Total AUM		**416**					

**Returns for Flexicap are annualized as it has completed one full year. However, returns for Small Midcap and Blend are not annualized as they are yet to complete one full year.*

Navigating Turbulent Waters

- Q1FY25 real GDP was weak at 6.7% in Q1FY25 (vs 7.8% in Q4FY24 and 8.2% in Q1FY24), marking the slowest growth in five quarters (Exhibit 1). Big part of the reason was the slowdown in government spending due to elections. For instance, there were zero new highway construction contracts awarded by NHAI during Q1FY25.

Exhibit 1: Real GDP growth hits five-quarter low



Source: Motilal Oswal

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- This weakness in GDP was also reflected in the earnings. On an aggregate basis, Revenue growth was weak at 8.5% and PAT growth was just about 2.9% (Exhibit 2).

Exhibit 2: Sector-wise results review

	Q1FY25 Review				
Sectors	**Net sales growth/NII growth**	**EBITDA growth/PPOP growth**	**EBITDA Margin**	**Adjusted PAT Growth**	**Q4FY24 Adjusted PAT Growth**
Communication Services	3.1%	17.5%	41.0%		
Consumer Discretionary	4.0%	21.4%	12.4%	22.3%	77.7%
Consumer Staples	7.9%	13.1%	18.2%	13.1%	8.8%
Energy	5.0%	-18.3%	13.6%	-30.4%	-8.9%
Financials	20.7%	18.6%	-	17.5%	23.3%
Health Care	11.1%	22.4%	24.2%	30.9%	14.1%
Industrials	11.2%	19.9%	16.1%	27.7%	28.0%
Information Technology	4.7%	8.2%	20.0%	9.7%	8.8%
Materials	1.8%	9.0%	16.1%	2.7%	-14.9%
BSE500	**8.5%**	**8.7%**	**22.6%**	**2.9%**	**12.4%**

Source: Bloomberg, Emkay Research

- **Incrementally, things are not as bad.** Recent datapoints suggest that Central government spending is getting back on track, with capital expenditure increasing in July with 108% YoY, largely led by roads and railways. This should augur well for the remainder of FY25 (Exhibit 3).

Exhibit 3: Central Government Capital Expenditure

(Rs bn)	**Jul-24**	**Jul-23**	**Jun-24**
Defence	110	132	67
Railways	187	165	172
Roads and Highways	321	22	23
Others	183	67	113
Total	801	386	375

Source: CEIC, Kotak Economics Research estimates

- One more minor thing that came to our attention from recent commentary from consumer discretionary companies that for some astrological reason, Q1FY25 had almost negligible wedding days. This impacted a lot of the high-ticket discretionary consumption that is often associated with Indian weddings. Somehow, the wedding days are heavily skewed towards Q3FY25 and some recovery in consumption is highly possible.

Valuations are generally stretched, but Large-caps may offer select pockets of tactical upside

- Despite weakness in fundamentals and sell-off from FIIs, the market was resilient because of the strong domestic flows. This has resulted in widening of the gap between profit and valuations for the entire economy (Exhibit 4).

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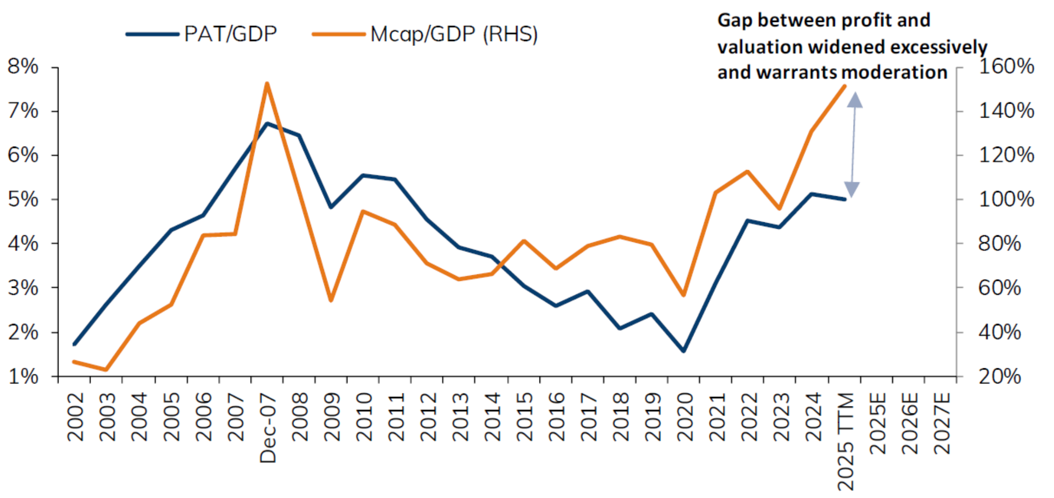
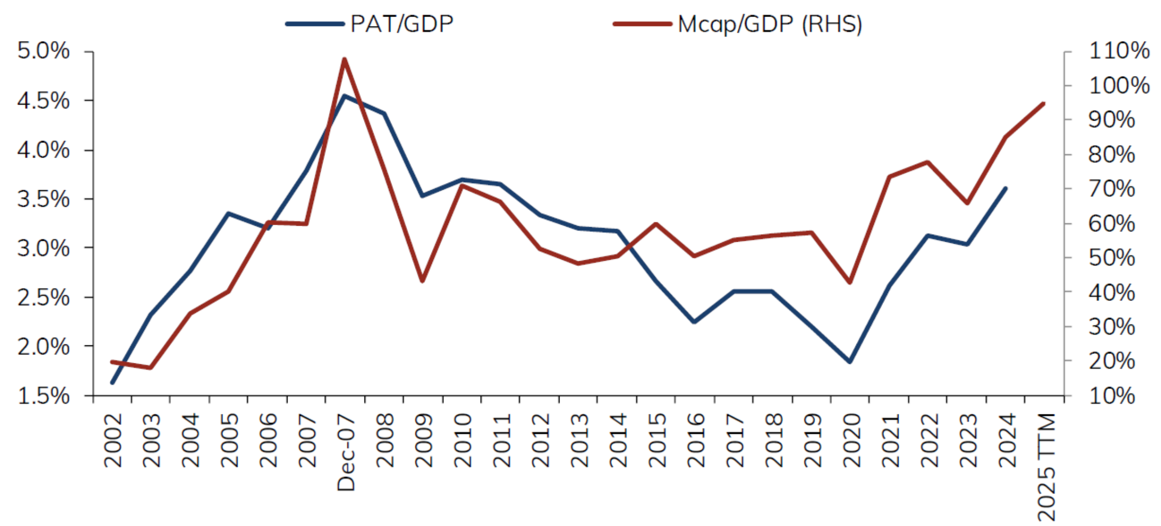
Exhibit 4: Profit and Valuation Gap for India Inc.



Source: Bloomberg, Capitaline, I-Sec research

- In the case of Large-caps, MCAP/GDP remains elevated, but it is still below previous peak (Exhibit 5).

Exhibit 5: Large cap "MCAP/GDP"



Source: Bloomberg, Capitaline, I-Sec research

Our view from here

- The macro commentary from the West clearly indicates that US Fed will be cutting interest rates by 25bps in September. This will be the first cut since the early Covid-19 days.
- Once the US Fed rate cut is out of the way, we anticipate that RBI will also feel comfortable about cutting rates in India. Also, one of the big drivers of inflation in India - food inflation – is now down to a 13-month low in July. In the last MPC meeting, 2 MPC members voted strongly in favour of a rate cut as they felt that growth is getting sacrificed at current levels of interest rates. Rate cuts would ease the liquidity crunch currently faced by the banking system and help in credit growth towards investments as well as consumption.

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- Monsoons have been pretty much broad based this year, and above long-term averages. This should help in rural recovery as the agriculture-oriented economy reaps the benefit post-harvest in the second half of FY25.
- Government spending on infrastructure has already started to pick-up pace and the annual budget allocation should also start to work its way through the system.

Conclusion

- We remain watchful of the overall conundrum between the high aggregate valuations and low aggregate earnings growth.
- In Large-caps, we continue to favour interest rate sensitive sectors, especially where valuations are more palatable e.g. Financials, Insurance etc sectors.
- In Small-caps, we continue to prune the richly valued end of the portfolio, increase weightage in companies with more reasonable valuations, get into some tactical interest rate sectors.
- Talking about our own portfolios, **we have launched a “Blend” investment approach** that gives us the flexibility to shift weights between Large-caps and Small Mid-caps depending on where we see the best potential for price appreciation.

We will be happy to have a quick call with you to discuss your portfolio, and the newly launched Blend investment approach.

Also, we really appreciate the references you have shared thus far and would request you to continue to remain generous in sharing more references.

Warm regards,
MoneyGrow Team

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