

MONTHLY NEWSLETTER

JULY 2024

WHAT'S INSIDE

- **Q1FY25 Review**
Q1FY25 Earnings Season Largely Muted
- **5 Investing Lessons From Olympics**
- **Food For Thought**
Art Of Achieving Financial Freedom
- **What Caught Our Attention This Month**



Nilesh Shah

President & MD

Kotak Mahindra Asset Management

Financial Freedom came to me through regular, long-term and disciplined investments.



Warren Buffett

CEO

Berkshire Hathaway

The trick in investing is just to sit there and watch pitch after pitch go by and wait for the one right in your sweet spot. And if people are yelling, 'Swing, your bum!' ignore them.

Q1 FY25 REVIEW

Q1FY25 EARNINGS SEASON LARGELY MUTED

REVENUE GROWTH REMAINS SUBDUED, PAT GROWTH NEGATIVE.

In Q1FY25, BSE500 (ex-BFSI) PAT growth was weak at -4.6% YoY due to fading tailwinds from lower input prices. With input price tailwinds fading and demand soft, corporates resorted to cost rationalization. Strong operating earnings growth was predominately seen in consumer discretionary, healthcare, and industrials; however, weakness was visible in sectors like energy, materials, information technology, and, to some extent consumer staples.

Within consumer discretionary, consumer durables posted a healthy earnings growth primarily led by strong demand owing to heat waves. Within discretionary, hotels and jewelry slowed, while fashion retailers continued to witness stress. Consumer staples stabilized on the back of some improvement in rural demand sequentially. Pharma companies reported better-than-expected strong numbers aided by revenue growth, and margin expansion driven by gross margin improvement and cost optimization.

Industrials continue to outperform, maintaining solid earnings growth. BFSI earnings moderated due to persistent margin pressures while credit costs normalized. The Energy sector's underperformance was due to OMC's weak refining margins and LPG under-recoveries. Diesel and petrol margins fell due to an uptick in crude and regional product prices. Indian IT companies remained subdued on the back of a continued weak macro environment, though management commentary was slightly more optimistic post Q1 FY25 results. Building materials results were weak as the demand remained muted due to the general elections in the country.

Q1 FY25 Sector-wise Earnings growth (YoY) summary

Sectors	Net sales growth / NII growth	EBITDA growth/PPOP growth	EBITDA Margin	Adjusted PAT Growth
Communication Services	3.1%	17.5%	41.0%	
Consumer Discretionary	4.0%	21.4%	12.4%	22.3%
Consumer Staples	7.9%	13.1%	18.2%	13.1%
Energy	5.0%	-18.3%	13.6%	-30.4%
Financials	20.7%	18.6%	-	17.5%
Health Care	11.1%	22.4%	24.2%	30.9%
Industrials	11.2%	19.9%	16.1%	27.7%
Information Technology	4.7%	8.2%	20.0%	9.7%
Materials	1.8%	9.0%	16.1%	2.7%
BSE500	8.5%	8.7%	22.6%	2.9%
BSE500 (ex-BFSI)	4.7%	-0.3%	15.1%	-4.6%
NIFTY 50 (ex-BFSI)	5.5%	0.5%	17.8%	-4.2%

Source: Broker Strategy Reports, August 2024, and Equentis Research

5 INVESTING LESSONS FROM THE OLYMPICS



Olympics is one of the most coveted tournaments, most athletes look forward to participating in. Over the decades, the Olympics have given spectators around the world unforgettable moments. One can find many stories of struggle and triumph to ponder over and extract lessons from.

In the 2024 Olympics, India won 6 medals. While it is still lower than the previous Olympics, we have come a long way from the Medal tally of 1 in 2000 and 2004. Medal or not, Olympics does inspire and give lessons which are helpful in other walks of life.

India's performance at Olympics over the years

Year	Games	Gold	Silver	Bronze	Total	India's Rankings
2000	Sydney	0	0	1	1	71
2004	Athens	0	1	0	1	65
2008	Beijing	1	0	2	3	50
2012	London	0	2	4	6	55
2016	Rio de Janeiro	0	1	1	2	67
2020	Tokyo	1	2	4	7	48
2024	Paris	0	1	5	6	71

Source: Wikipedia

When it comes to investing, there are many parallels to be drawn between the two. Just like Olympians don't become stars overnight, investors must not expect multi-bagger returns overnight. The Olympics highlight the importance of strategy, focusing on strength, patience, persistence, collaboration, teamwork, and more.

Here are some lessons investors can take away from the Olympics -

Start Early

The athletes playing at the biggest of events have all started playing the sport when they were young. Neeraj Chopra started training at the age of 12 at Panipat Stadium while Manu Bhaker started at 14. Similarly, starting early helps in investing. When the investor is young, typically, the corpus is smaller, so even if mistakes are made, the quantum of the losses is limited. Starting early also ensures that the investors have a long runway to make mistakes early, accumulate corpus, and compound wealth over the years. Most of the returns are made over the tail end of the investment journey.

Prepare and Adapt to Changes

Abhinav Bindra, the Olympic gold medallist, had a disappointing final in Athens in 2004. He finished 7th even after performing to the best of his ability. Later, he found out that the lane position he was allotted had a loose tile underfoot, which moved every time he shot. So, while preparing for the 2008 Beijing Olympics, he tried creating the same imperfect conditions at his home range with a loose tile, bright light, dull light, etc. He even rented a marriage hall to recreate the huge shooting range in Beijing. He wanted to be perfect even on an imperfect day. This training helped him in the Beijing final when during the Sighting period (a five-minute period where shooters get to fine-tune their sight), he shot a 4. But rigorous training came to his rescue, as he tightened the sight 5-6 times with some quick math and without panicking. His first shot at the final was a near-perfect 10.7 that won him the Gold.

In Investing, most of the preparation and analysis happen before the money is deployed among various stocks. Also experience and practice help to adapt to changes and fine-tune strategies as needed.

Competition will increase

The competitive intensity at the Olympics has gone up over the years. At the first-ever Olympics in 1896, the quickest Athlete in the 100-meter race was Francis Lane with timing of 12.2 sec. Over the years, the record has been broken several times. The current Olympic record is with Usain Bolt, who ran 100 meters in 9.63 sec in the 2012 Olympics. The gold medallist N. Lyles was quickest at 9.79 during the Paris Olympics. Coming to the Javelin throw, during the Tokyo Olympics, Neeraj Chopra won the gold medal with a 87.58-meter throw. At the Paris Olympics, the gold medal was won by Arshad Nadeem with a 92.97-meter throw. Within 3-4 years, there is an increment of 5 meters to win the gold.

Similarly, in investing, over the years the competition in the capital markets has gone up. Two decades ago when shares were traded physically, there was information arbitrage and time lag, which benefitted the bigger players. However, with all the information available at the fingertips and an improvement in disclosure norms, markets have become a level playing field today.

Exercise a margin for safety

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Having the right coach is critical

Top athletes have expert coaches, trainers, and support staff to guide them during the training phases. For example, PV Sindhu had several coaches guiding her during training and competition. She took her first lesson under the late coach Mahboob Ali and later began her national and international domination under Pullela Gopichand. She won a silver medal at the Rio Olympics in 2016, under Gopichand's coaching. Later, she worked with various international coaches. She won the bronze medal in the 2020 Tokyo Olympics with Coach Park Tae-Sang by her side.

Similarly, in Investing, investors need an advisor by their side to handhold them in the investing journey. The right advisor not only focuses on giving recommendations but also understands the psychology of the investor, their goals, and risk tolerance and then suggests appropriate investment avenues.

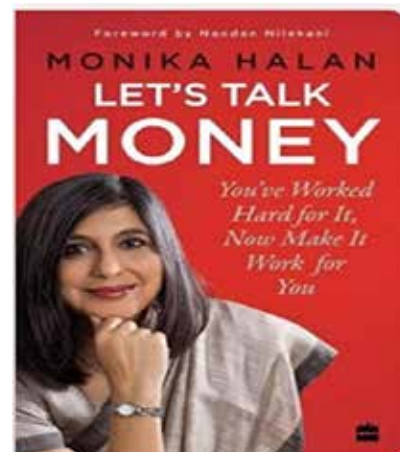
Conclusion:

Just as Olympians try to be the best version of themselves to compete on the global stage, investors must also try to be the best version of themselves. Both must constantly learn, as that will allow them to compete with others in the market or the tournament respectively. While in investing, there is no gold, silver and bronze medal, the investing journey itself is the medal or the winning.

FOOD FOR THOUGHT

ART OF ACHIEVING FINANCIAL FREEDOM

India has been through several financial and economic downturns since independence 78 years ago. In 1947, India's GDP was Rs 2.7 lakh crore, with a population of 34 crore people. Cut to 2024, India is the 5th largest country in the world with a GDP of \$3.9 trillion and the most populous country leaving China behind. India is on its way to becoming a developed nation but as common citizens, are we free of the financial stress yet? Not many would agree. The concept of 'financial freedom' is still alien to many. Monika Halan, a celebrated finance writer and veteran author, has simplified personal finance concepts in her book—Let's Talk Money, which contains anecdotes from real-life.



Her book Let's Talk Legacy features a quote by Yudhisthir from Mahabharata, "Every man knows that death is the ultimate truth of life. He sees countless people dying around him, but he acts and thinks like he will live forever." No one plans on dying, but an untimely death is always a possibility. Despite knowing this universal truth, most of us live without a financial plan thinking they have time. Let's Talk Money explains how to achieve financial freedom. According to her, one must have an emergency fund, the ability to manage cash flows well, investments in various asset classes, and a will.

Let's take a comprehensive look at Halan's suggestions for achieving financial freedom!

Construct a Money Box

Halan emphasizes creating a money box to manage your cash flows efficiently. Most of us receive salary, which is our only cash, flow but for others, it can be several revenue streams. Regardless of how many revenue streams one has, Halan suggests having three different bank accounts, one each for savings, expenses and investments.

According to her, don't wait for the right time to start saving. Do it with whatever you have, even a few thousand rupees. This habit allows you to have guilt-free spending without worrying about your future goals. One trick here is to follow the '**50-30-20**' rule, where you can divide your income into three different baskets- 50% towards your needs (saved in an expenses bank account), 30% towards wants (saved in expenses bank account), and 20% towards savings and investments (saved in savings and investment bank account). Once you divide your income, you are less prone to spending mindlessly and making your money work for you.



Source: Mint Notion

Track Your Spendings

Once you've separated your income into different bank accounts, Halan suggests tracking all spending. She emphasizes the practice of choosing between need and greed. 'Need' is anything essential, while 'greed' is just something that you desire. Understand while buying that wrist watch, dress, or perfume, if it's a need or just a desire? Once you start distinguishing and building on this habit, expenses will automatically decrease resulting in more cash in hand, which can move into your savings and investments.

Save for Rainy Days

Halan, in her book Let's Talk Money strongly suggests saving for rainy days like job loss, recession, health issues, etc. She recommends having an 'emergency fund' that consists of 6-12 months of monthly expenses. According to her, this capital can be stored in a Flexi-Fixed-Deposit or a debt mutual fund, which is a safe investment tool with minimal risk and delivers 6-9% of returns. Further, you can also park your money in liquid mutual funds that invest in high-quality government and corporate bonds that mature in 91 days. These are safe, provide better returns than FD, and are short in tenure.

Last year, Business Standard wrote about how most Indians still don't have an emergency fund. The article stated that it takes about 15 months to construct an emergency fund that is 3x your income. It further highlights that before investing, you must cover all the basics like building an emergency fund and buying health and life insurance cover.

Emergency Funds & How Long Will It Take to Create It				
MONTHLY TAKE-HOME INCOME	20% SAVINGS	EMERGENCY FUND SIZE		
		3X INCOME	6X INCOME	9X INCOME
₹25,000	₹5,000	₹75,000	₹150,000	₹225,000
₹35,000	₹7,000	₹105,000	₹210,000	₹315,000
₹50,000	₹10,000	₹150,000	₹300,000	₹450,000
₹75,000	₹15,000	₹225,000	₹450,000	₹675,000
₹100,000	₹20,000	₹300,000	₹600,000	₹900,000
Time Needed To Create Fund*		~15 months	~28 months	~41 months
*Using a recurring deposit returning 5.5%. Income tax as applicable. Time required will be lower with a higher interest rate and higher with a lower rate.				

Source: Business Standard

Insurance is the Umbrella on Rainy Days

"The day you realise that it is in your best interest to separate your investment and insurance products, is the day you move solidly towards building your financial security."- **Monika Halan**

Halan recommends having a health and a life insurance as it acts as a shield that helps you stay secure at uncertain times. A health insurance secures your medical bills, whereas a life insurance provides an income replacement for your dependents. Life is unpredictable, and India is a home to many lifestyle diseases like heart stroke, diabetes, asthma, etc. The treatment and medical costs are rising with every passing year. ICICI Lombard General Insurance did a study where it found out that 77% of Indians are going through at least one symptom of stress regularly. Therefore, having insurance, both health and life, becomes of utmost importance.

Feature	Life Insurance	Health Insurance
Why should you invest?	If you suddenly pass away, your family is financially secure.	There is no need to dig deep into your pocket for medical emergencies when you have health coverage.
Core benefit	On demise, the promised amount is paid to the beneficiary.	You are covered for all treatment expenses up to the maximum amount your insurance policy allows.
Additional Benefits	A cover policy can be enhanced with several benefits such as maturities, surrenders, loyalty additions, etc.	Some policies offer free health checks, and some allow you to add a no-claim bonus.
Types of covers	1. Individual Cover, 2. Group Cover	1. Individual, 2. Family, 3. Group coverage
Types of Plans	Term plans, Savings, Retirement, child-related (wealth creation), etc.	Health insurance plans with comprehensive coverage, critical illness insurance, etc.
Tax Benefits	A deduction is available under Section 80C of the Income Tax Act and Section 10(10D).	Following Income Tax Act Section 80D*

Source: HDFC Life

Conclusion:
Monika Halan's Let's Talk Money is not a get-rich-quick book but a personal finance guide that offers easy tips to achieve financial freedom. In this age of digital revolution, where continued innovation is changing the financial landscape, one cannot invest in traditional asset classes (real estate, gold etc.) like our ancestors. Several investment assets cater to every individual's needs, helping them achieve financial freedom ahead of their retirement.

WHAT CAUGHT OUR ATTENTION THIS MONTH!



Source: Rediff.com

GST collections at third highest-ever in July, rising 10.3% to ₹1.82 lakh crore

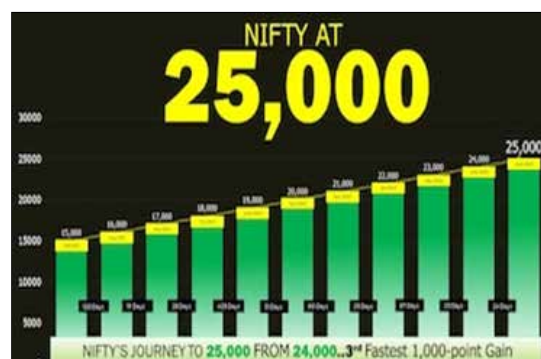
GST collections continued their growth momentum, rising by 10.3% to ₹1.82 lakh crore in July, compared to Rs 1.74 lakh crore during the same month last year. This rise marks the third-highest monthly collection since GST was introduced.

While July's GST collections were below the record Rs 2.1 trillion in April, experts said they were in line with the robust GST revenue receipts and will rise further with the upcoming festive season. July's figures reflect sales from June 2024, traditionally a slower month before festivities.

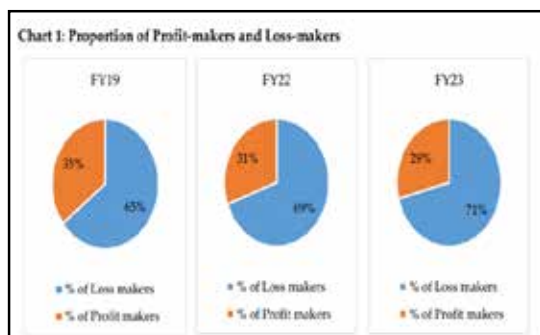
Sensex at record high, Nifty crosses 25,000 for first time

On August 1, the Nifty 50 index reached the historic 25,000 mark, recording its third-fastest 1,000-point rally. The fastest was a 1,000-point jump from 16,000 to 17,000 in just 19 sessions in August 2021. Similarly, the BSE Sensex crossed 82,000 for the first time during intraday trade.

Domestic benchmark indices hit fresh record highs, driven by expectations of a potential interest rate cut by the US Fed in September this year.



Source: CNBC – TV18



Source: investing.com

Over 70% of intraday traders suffered losses during FY23, reveals Sebi study

According to a Sebi study, 71% of individual intraday equity traders faced losses in FY23, up from 65% in FY19 and 69% in FY22.

The number of intraday traders surged from 15 lakh in FY19 to 69 lakhs in FY23, a 4.6x increase.

Additionally, 76% of traders with an annual turnover exceeding ₹1 crore were the loss-makers, incurring average losses of ₹34,977 in FY23.

India's retail inflation eases to 5-year low in July

India's retail inflation in July slowed to 3.54%, the lowest in nearly five years, driven by a sharp drop in food inflation. Based on the CPI, Retail inflation was 7.44% in July 2023 and 5.08% in June.

Food inflation fell to a 13-month low of 5.42% in July, down from 9.36% in June, bringing the overall inflation below the RBI's 4% target for the first time since September 2019.

However, economists cautioned that the decline was primarily due to last year's high inflation base and warned it could rise again in the coming months.



Source: Reuters



Govt moves amendment to provide relief for real estate under LTCG regime

The government has introduced an amendment allowing taxpayers to choose between a lower rate of 12.5% without indexation or a higher rate of 20% with indexation for property acquired before July 23, 2024.

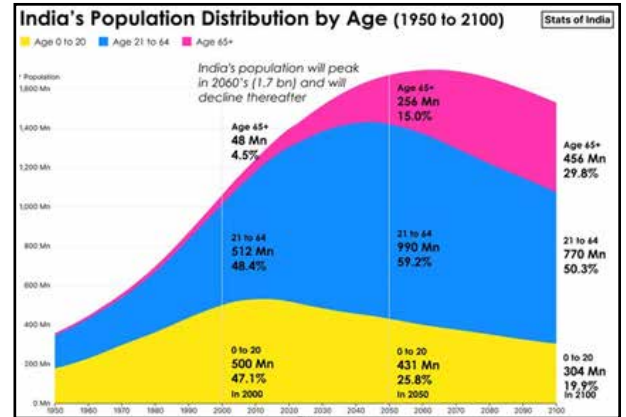
In the 2024 Budget, the finance minister proposed reducing the LTCG tax on property from 20% to 12.5%, while eliminating the indexation benefit. This move was seen as a setback for homeowners, as indexation helps reduce the taxable capital gains by adjusting the property's purchase cost for inflation.

India's population to peak in early 2060s at 1.7 billion before sliding: UN

The United Nations forecasts that India's population will peak at around 1.7 billion in the early 2060s before declining by 12%, yet it will remain the world's most populous nation throughout the century.

The report projects India's population to reach 1.45 billion in 2024, peaking at 1.69 billion by 2054. By 2100, the population is expected to decrease to 1.5 billion.

Having surpassed China last year, India will continue to hold this status through 2100.



Source: Stats of India



Source: The Hindu Business Line

India now among top 25 global defence exporters: Economic Survey 23-24

According to the Economic Survey, India has shifted from being a major arms importer to having found a place in the list of top 25 arms exporter nations. In FY24, India achieved its highest-ever arms exports at \$2.5 billion.

From 2015 to 2019, India was the world's second-largest arms importer, but the situation has changed. Defence production has grown substantially in the country, from ₹741 bn in FY17 to ₹1087 bn in FY23, boosting defence exports.

"The defense sector, including private companies and Defence Public Sector Undertakings (DPSUs), have played a crucial role in reaching this record level of defense exports.

Supreme Court allows states to collect mining tax dues from April 1, 2005

The Supreme Court has ruled that states can collect past dues on royalty for mineral-bearing land from the Centre and mining companies starting from April 1, 2005, despite strong objections from both parties.

A senior Ministry of Mines official indicated that this decision will significantly impact companies in the mining, steel, power, and coal sectors.

The ruling is expected to deliver a major blow to the Indian mining industry, with arrears potentially in the range of ₹1.5 lakh crore and ₹2 lakh crore, according to industry estimates.

MONEY MATTERS

- After the SC verdict, Odisha can collect tax from mining lease holders under ORISED Act, 2005, with effect from April 1, 2005
- ORISED fund can be spent on promoting rural infrastructure, health and sanitation
- On Jul 25, SC allowed states to levy tax on mineral bearing land while disposing of a bunch

of petitions

- On Jul 31, states such as Odisha and Andhra Pradesh sought retrospective implementation of the tax, while Centre sought its prospective implementation
- On Aug 14, SC allowed retrospective implementation of collection of tax but without fine and interest

Source: Times of India



Bangladesh crisis poses significant concerns for textile industry: CITI

Bangladesh's severe political crisis is causing "significant concerns" for India's textile and apparel sector, especially for companies with factories there, according to the Confederation of Indian Textile Industry.

The domestic textile industry body believes any disruption in Bangladesh could immediately impact the supply chain, affecting production schedules and delivery timelines for Indian firms.

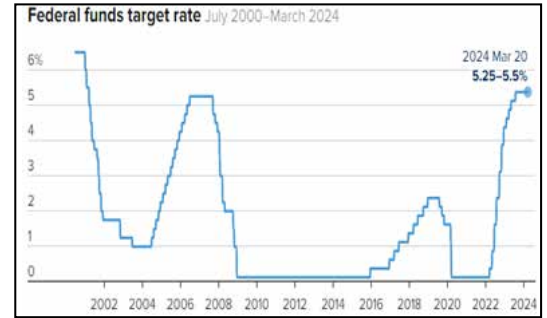
Chandrima Chatterjee, Secretary General, Confederation of Indian Textile Industry (CITI) said, "While we are concerned about the impact on the supply chain and the potential delays and disruptions it might cause, we are hopeful that the situation will improve soon.,".

Global News Of This Month

US FOMC holds rates steady at 5.25% to 5.5%, signals 1st cut nearer

For the eighth consecutive meeting, the FOMC kept interest rates at their highest level in over 20 years, ranging from 5.25% to 5.50%, consistent with market expectations.

In a post-meeting press conference, Fed Chair Jerome Powell suggested that a rate cut could occur as early as September. It also signalled they are moving closer to lowering borrowing costs amid easing inflation and a cooling labor market.



Source: CNBC-TV18



Sheikh Hasina quits, flees Bangladesh as protests surge

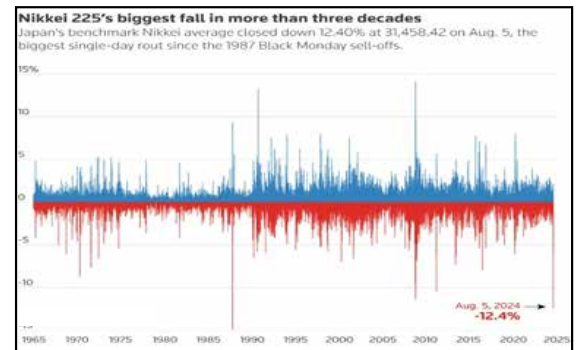
Bangladesh Prime Minister Sheikh Hasina resigned and fled to India after protesters stormed her official residence following weeks of deadly anti-government demonstrations in the South Asian nation.

Her resignation came after student protests that began in early July. The unrest was triggered by the reinstatement of a 30 percent job quota for descendants of 1971 independence war veterans, which protesters viewed as political favouritism for ruling party supporters.

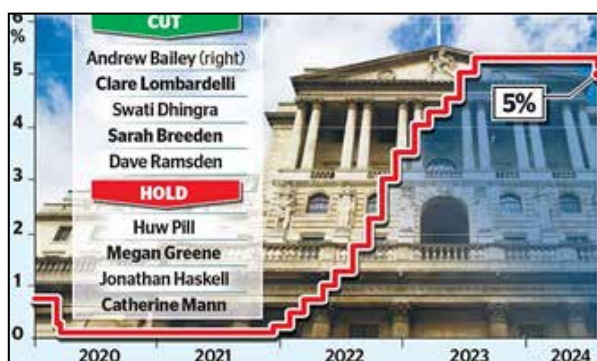
Japan's Nikkei sees the biggest crash in 37 years.

Japanese stocks plummeted on Monday in their largest single-day drop since the 1987 Black Monday selloffs. This collapse was fueled by last week's global market downturn (adding a date would be preferable), economic worries, fears of a U.S. economic slowdown, and concerns about investments funded by a weak yen being unwound.

The Nikkei 225 index, which tracks major Tokyo stocks, fell by a record 4,451 points, marking its biggest point loss ever, and ended the day down over 12% on a percentage basis.



Source: Reuters



Source: This is Money

Bank of England cuts rates for the first time in four years

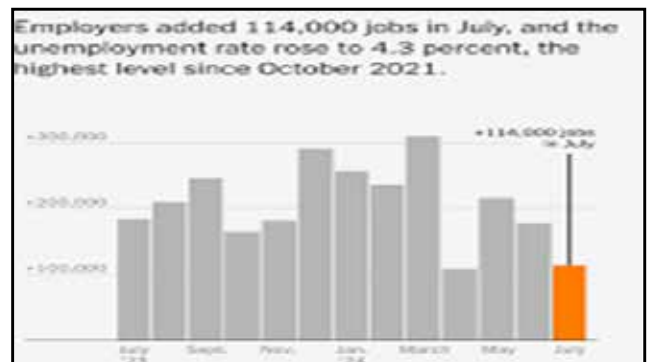
The Bank of England reduced interest rates for the first time since the pandemic began, offering some relief to households facing the highest borrowing costs in 16 years.

The benchmark interest rate is now at 5%, down from 5.25%, where it had remained since September after the longest series of consecutive rate hikes in over a century.

US unemployment rate hits 4.3% in July as job growth slows considerably

In July, the U.S. unemployment rate rose to 4.3%, nearing a three-year high, amid a notable slowdown in hiring and raising concerns about a potential recession.

This unemployment rate marks the fourth consecutive monthly increase from 4.1% in June and a rise from the five-decade low of 3.4% in April 2023. The slowdown is attributed to weak hiring, rather than layoffs, as the Federal Reserve's rate hikes impacted demand.



Source: The New York Times

THANK YOU

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