



Harsh Mariwala

Founder & Chairman, Marico

Your health is an investment, not an expense. Although it will become an expense if you don't take time to invest in it.



Rahul Bajoria

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We see RBI remaining on hold through FY24, only seeing a window for rate cuts opening in Q1 FY25 (April-June 2024).

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Q4 FY23 REVIEW

EARNINGS GROWTH REMAINS STRONG AIDED BY SOFTENING COMMODITY COSTS

In Q4FY23, Nifty50 recorded double-digit sales growth of 10% YoY and strong double-digit PAT growth of 18% YoY. Nifty 200 sales growth was at ~11% YoY, and PAT growth was at ~17% YoY driven by banks & NBFCs, and auto sector. Earnings drag for Nifty 200 in Q4FY23 was primarily from metals and cement sectors.

Banks posted ~44% YoY earnings growth led by strong credit growth, healthy spread, and lower provision. NBFCs grew ~21% YoY as underlying environment post COVID impact has seen significant improvement, leading to rising disbursements growth which has propelled loan growth. Profitability within the auto sector has improved on the back of strong volume growth on YoY basis owing to low base and softening of commodity costs resulting in massive 166% YoY growth. Weak realizations and increased input costs such as power & fuel, freight and raw material costs have impacted profitability for metals and cement sector during the quarter.

Q4 FY23 Nifty200 Sectoral Distribution of Earnings

Free float, Rs bn	NSE 200 Index	Sales			EBITDA			PAT		
Sector	Weights	Q4FY23	YoY	QoQ	Q4FY23	YoY	QoQ	Q4FY23	YoY	QoQ
Agriculture	0.7%	126	5.1%	19.0%	23	-12.7%	-2.0%	12	-25.5%	-9.3%
Auto Ancillaries	1.0%	181	19.5%	6.0%	22	40.5%	26.6%	10	59.5%	38.1%
Automotives	4.5%	1,035	28.9%	13.0%	131	43.2%	15.3%	71	165.9%	21.9%
Aviation	0.3%	50	76.6%	-5.0%	10	NM	-11.7%	2	LtoP	-66.8%
Building Material	0.6%	17	7.7%	-1.0%	3	25.1%	14.4%	2	23.3%	25.2%
Capital Goods & Infra	3.2%	558	10.6%	26.0%	79	5.2%	27.7%	40	7.4%	59.5%
Cement	2.7%	224	13.8%	13.0%	32	-6.0%	24.9%	19	-27.9%	58.7%
Cigarettes	3.3%	116	5.6%	1.0%	44	18.9%	-0.2%	36	19.6%	-0.3%
Defense	0.7%	73	4.9%	81.0%	20	21.9%	152.6%	16	4.1%	135.1%
Discretionary	3.9%	217	14.9%	1.0%	28	1.2%	-5.5%	16	-3.5%	-7.9%
FMCG	5.8%	228	11.1%	-1.0%	38	14.4%	1.4%	26	12.1%	-1.5%
Industrials	0.6%	83	26.3%	17.0%	9	138.6%	76.0%	3	179.5%	15.7%
Internet	0.3%	16	51.4%	4.0%	0	LtoP	LtoP	-1	loss maker	loss maker
Logistics	0.8%	42	13.3%	12.0%	9	-5.8%	-17.3%	8	94.1%	76.9%
Media	0.2%	22	-8.5%	0.0%	3	-57.3%	-44.1%	0	-96.2%	-91.3%
Metals	3.4%	1,326	-4.2%	11.0%	181	-35.7%	46.0%	71	-54.3%	456.1%
Oil & Gas	2.6%	2,127	12.4%	-1.0%	215	16.5%	41.9%	140	26.0%	69.0%
Reliance Industr	7.6%	1,065	2.7%	-2.0%	192	22.5%	9.0%	96	19.1%	22.2%
Paints	1.4%	49	11.4%	0.0%	10	26.2%	14.5%	7	24.6%	14.9%
Pharma	4.6%	323	13.9%	0.0%	65	27.7%	-7.8%	43	26.6%	-8.0%
Power/Mining	3.6%	441	16.0%	-1.0%	147	15.9%	-0.7%	68	-1.0%	23.2%
Real Estate	0.5%	24	10.6%	26.0%	6	22.7%	-2.9%	5	50.2%	34.7%
Speciality Chemicals	0.9%	80	23.8%	-8.0%	16	27.4%	1.3%	11	22.2%	13.9%
Technology	12.0%	832	16.1%	-1.0%	161	11.9%	-1.2%	127	4.7%	-4.5%
Telecom	2.2%	234	9.1%	0.0%	112	6.7%	12.1%	3	256.9%	LtoP
NBFCs	7.2%	170	NM	NM	132	NM	NM	84	20.7%	13.2%
Financial Services	3.7%	431	NM	NM	94	NM	NM	59	23.5%	-12.8%
Banking	22.0%	944	NM	NM	690	NM	NM	432	44.2%	11.6%
Total (Nifty 200)	100.0%	9,487	10.7%	5.0%	1,556	7.2%	14.0%	1,406	16.6%	21.5%
Ex-financials	67.1%	9,487	10.7%	5.0%	1,556	7.2%	14.0%	831	5.3%	32.3%
Ex-Commodity	94.0%	6,034	14.0%	5.0%	1,161	17.6%	7.0%	1,196	27.1%	12.6%
Ex-Financials & Ex-commodity	61.2%	6,034	14.0%	5.0%	1,161	17.6%	7.0%	621	18.5%	16.5%
Nifty 50 (incl. financials)		6,199	10.0%	5.0%	1,129	9.0%	10.0%	1,032	18.0%	16.0%

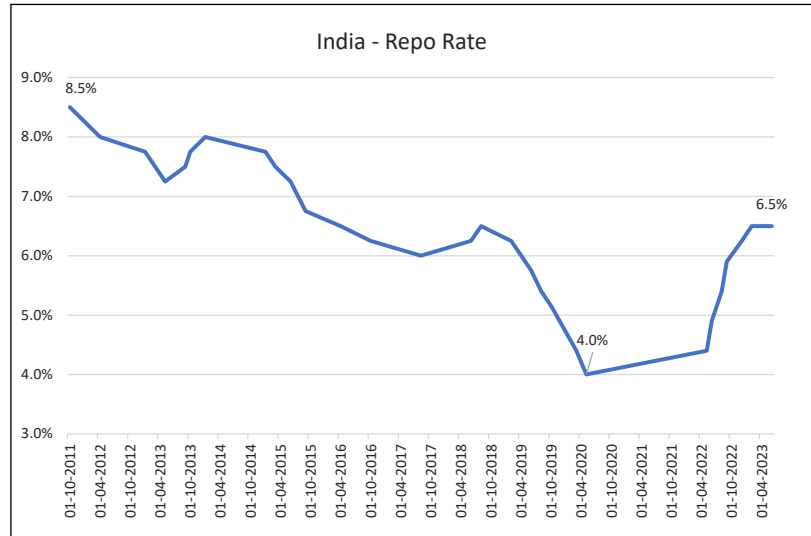
Source: ICICI Securities Strategy Report, 5 June 23

RBI MONETARY POLICY

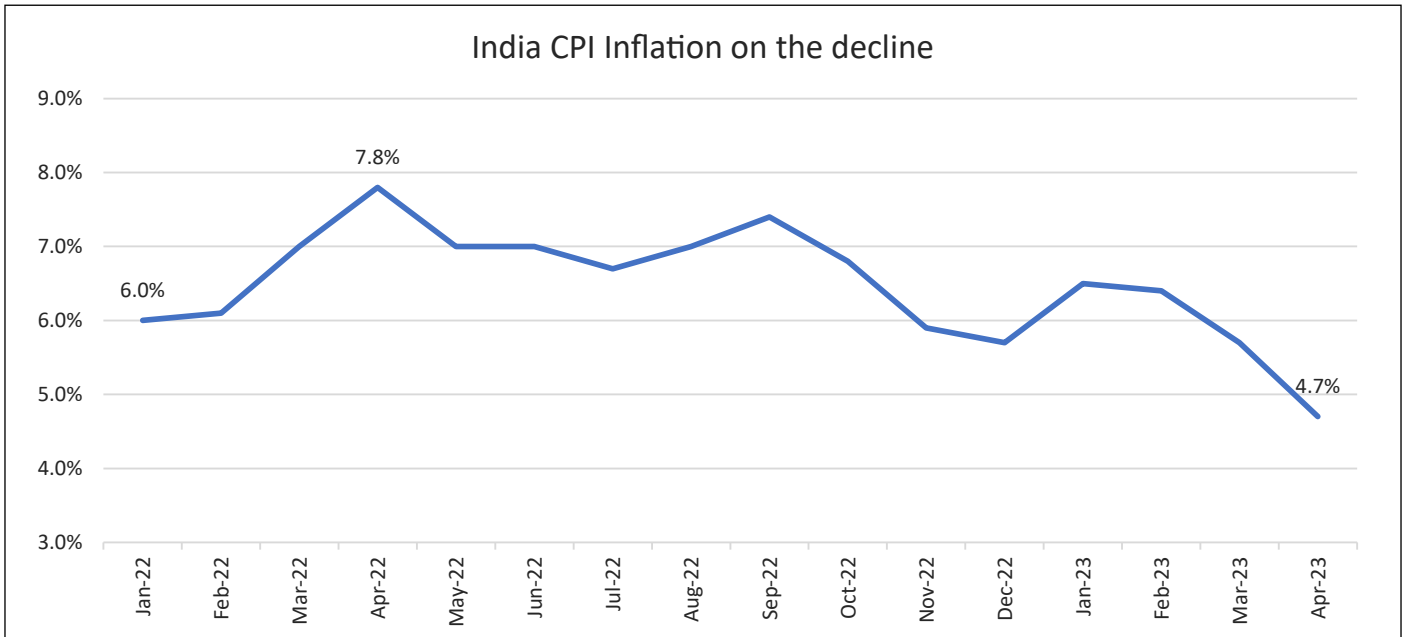
WHERE IS THE POLICY RATE HEADED

June '23 RBI Monetary Policy outcome

RBI decided to keep policy repo rate unchanged at 6.5%. The decision was unanimous with all 6 MPC members voting for a pause in rates. The MPC also decided by a majority of 5 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth. This is the 2nd consecutive RBI policy meeting where the policy rates have been unchanged. This is also a departure from the earlier hiking cycle which began in May '22 and saw the RBI hike policy repo rate by 250bps cumulatively.



Source - RBI



Source - RBI

Why status quo?

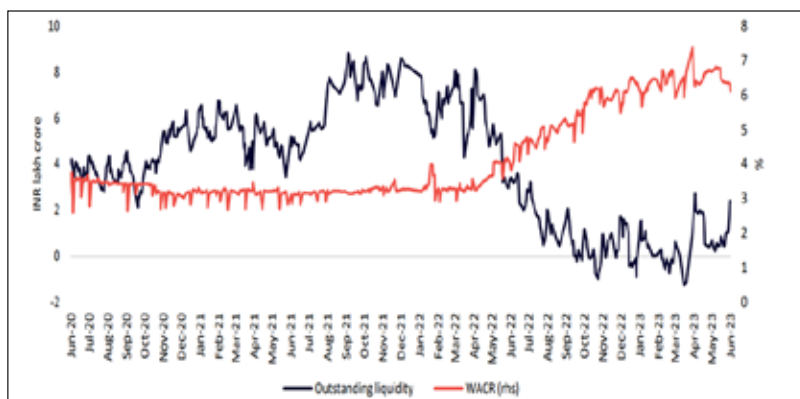
The primary objective of monetary policy is in taming inflation. RBI has a mandated target of keeping CPI inflation at 4% +/- 2% (2-6% band). CPI inflation is trending lower and was within RBI's tolerance band for 4 out of the last 6 months. CPI inflation reported in April '23 stood at 4.7% and at an 18-month low. The recent rate hikes are not yet fully transmitted in the system and will keep inflation in check going forward. The inflation print is better than RBI expectations and it has lowered its FY24 CPI inflation expectations by 10bps to 5.1%. The FY23 GDP growth also came in at 7.2%, better than RBI's expectations of 7%, however RBI has kept its FY24 guidance unchanged at 6.5%. The banking system is also in good stead delivering robust credit growth and with liquidity position also moving towards normalisation. Improvement in CPI data and good GDP print has warranted a status quo after the hiking phase.

RBI lowers its CPI inflation estimate

RBI' FY24E estimate		
	April '23 Policy	June '23 Policy
CPI	5.2%	5.1%
GDP	6.5%	6.5%

Source - RBI

Liquidity position moving towards normalization



Source - Nuvama Wealth Research

Can policy rates increase from here on?

The pace of monetary tightening is witnessing a slowdown globally. We have seen the US Fed as well signaling a likely pause in its key rates going forward. Currently, India is in a sweet spot with strong domestic factors driving improvement. With favourable monsoon expectations coupled with likely impact of past rate hikes and a stable currency, the CPI inflation is unlikely to overshoot the RBI's tolerance band. The RBI's CPI forecast also indicates the same. We thus, do not expect any rate hikes from here on.

Can we expect policy rate cuts?

It is too early to expect rate cuts as the RBI would want a clear path of certainty before it signals a rate cut. The global economy is still in a slowdown and inflation the world over is not yet within various central bank's tolerance limits. Geo-political concerns owing to the Russia Ukraine crisis still exist with no visibility of when it will end. There is still a fear of imported inflation and RBI lowering rates too soon could lead to sharp currency depreciation. Some central banks like EU, Canada and Australia are not yet done with rate hike cycle. The fear of El-Nino still exists which could lead to below normal monsoon. All these uncertainties need to be greatly minimized for the RBI to take a call on rate cuts. We believe these uncertainties should get addressed by the end of FY24 and we should start seeing rate cuts then.

Conclusion

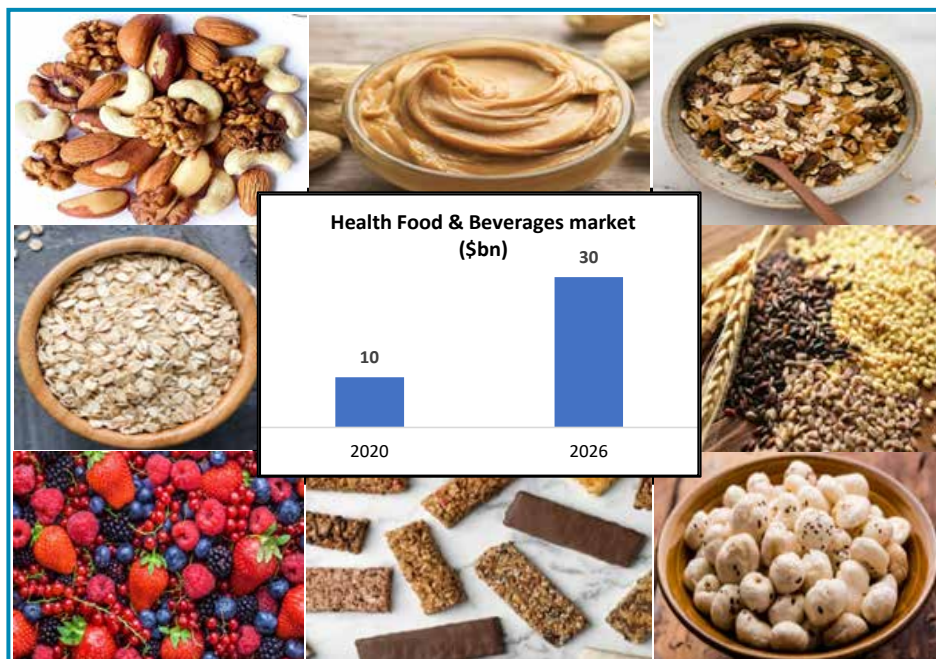
Compared to major global peers, India is one of the first to have ended its rate hike cycle and has moved into a period of stable rates. India has done well to maintain GDP growth while reducing CPI inflation trajectory. Considering that the inflation is within the RBI's tolerance band of 2-6% and declining uncertainties, rates are unlikely to rise from current levels. However, global macro and geopolitical risks still exist which will keep policy rates at current levels and a decline may happen only by the end of FY24.

GAGA OVER SOMETHING OR 'NUT'- THING?

Major players in the healthy snacking space

A study by Mintel states that 6 out of 10 Indians snack at least twice a day thus making it an integral part of one's daily routine. However, the rise of lifestyle related diseases and covid has been instrumental in driving a shift towards healthier snacking alternatives. There has been an increasing trend for **'Clean Label foods' (minimally processed, no added preservatives/ artificial ingredients)** and consumers are willing to pay a premium for these healthier options. Mindful snacking and digital play have emerged as important trends in this space.

As per a report by Avendus Capital, the Health Food & drinks segment in India will reach a market size of \$30bn in 2026 from \$10bn in 2020, growing at a 20% CAGR contributing ~16% of the total packaged foods and beverages market in 2026 vs 11% in 2020.



Source: Avendus Capital

The changing consumer habits evolving toward healthier/nutritious options has created a sizable healthy snacking market with several D2C brands entering the space in the last 5-6 years offering variety of options to consumers.

Healthy snacking Brand	Product portfolio	Healthy snacking Brand	Product portfolio
Happilo	Dry fruits, nuts, seeds, dates, berries	Snackible	Makhanas, ragi chips, spreads, chocolates, cookies etc.
Yoga Bar	Peanut butter, oats, energy bars, and muesli.	To Be Honest	Vacuum-cooked vegetable snacks
Open Secret	Cookies, chocolates, dry fruits, munchies, chips, spreads etc.	Green Snack Co	Trail mix, makhana, namkeen, quinoa puffs etc.
Epigamia	Yogurt, milkshakes, almond drink, smoothies	Max Protein	Protein rich snacks - Energy bars, cookies, chips, muesli
Soulfull	Millet based breakfast cereal products and snacks	Slurrp Farm	Multigrain cereals, dosa, pasta, and cake product mixes
True Elements	Teas, honey, super grains, muesli	The Whole Truth	Energy bars, protein bars, spreads, muesli, and chocolates.

Source: Equentis Research

While latest revenue numbers are not available for most of the brands since they are not publicly listed, the financials available of some brands indicate robust growth trajectory for the healthy snacking space.

	FY22 sales (Rs.mn)	YoY growth
Happilo	1,900	36%
Yoga Bar	680	74%
True Elements	540	50%

Source: Company, Equentis Research

Financial investors, Large FMCG companies' eye clean label food space

With habits changing and consumers opting for healthier options, it has caught the eye of large investors. Several brands have secured funding in the recent past for expansion plans.

Brand	Founded Year	Total funding received (\$mn)	Major investors	Latest valuation (\$mn)	Valuation Date
Happilo	2016	44	A91 Partners, Motilal Oswal Private Equity	192	Feb
Epigamia	2015	82	Innoven Capital, Verlinvest	160	May
The Whole Truth Foods	2019	22	Sequoia Capital, Matrix Partners	71	Jan-23
Slurp Farm	2016	10	Raed Ventures, Investment Corp. of Dubai	41	Sep-22
Open Secret	2019	15	Matrix Partners India, Sixth Sense Venture	28	Jun-22 -22
Max Protein	2006	8	British International Investment, Rabo Equity	28	Mar-22
Troo Good	2019	9	SRI Capital, OAKS	15	Oct-21
Green Snack Co.	2015	3	Mayfield, LetsVenture	12	Feb-20
Snackible	2015	4	Mumbai Angels, Astir Ventures	8	May-22

Source - Tracxn

Apart from financial investors, large entities have also identified this space for strategic investments given the fast-growing nature and sizable opportunity. Hence, companies like Tata Consumer, Marico, ITC have acquired a majority stake in some of these clean-label healthy breakfast and snack brands to accelerate their Foods portfolio.

Date	Acquirer	Acquiree	Stake	Amount paid (Rs.bn)
Feb-21	Tata Consumer Products	Soulfull	100%	1.6
May-22	Marico	True Elements	54%	Not disclosed
Jan-23	ITC Limited	Yoga Bar	47.5%	2.6
Jan-23	Ghodawat Consumer	To Be Honest	100%	Not disclosed

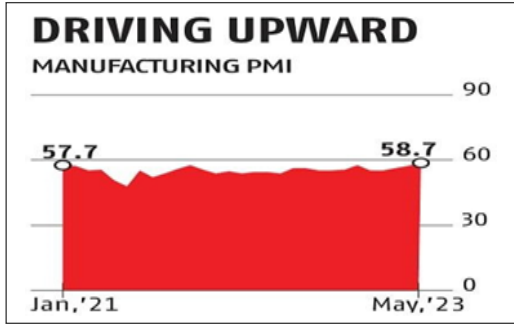
Source - Company, Equentis research

The securities mentioned above are for illustration & education only and should not be construed as recommendations.

Conclusion

The healthy snacking/clean label category is a very small fraction of the Indian snack market. However, the increasing trend of consumers looking towards healthy alternatives is driving significant growth for the category much ahead of the overall industry. The key challenge for these D2C brands will be penetration given the premium pricing (due to differentiated and premium offerings) which could be battled to an extent through smaller SKUs. Some of the brands have launched small packs to drive consumption beyond key cities and towns. Given the opportunity and growing health consciousness, it is likely to continue to be a fast-growing category in the next few years.

WHAT CAUGHT OUR ATTENTION THIS MONTH !



Source - Business Standard

India's manufacturing PMI hits 31-month high in May

The S&P Global India Manufacturing Purchasing Managers' Index increased from 57.2 in April to 58.7 in May led by strong demand and output, while improved optimism led the firms to hire at the quickest rate in six months.

Pollyanna De Lima, economics associate director at S&P Global said "While the upturn in domestic orders strengthens the foundations of the economy, rising external business foster international partnerships and boost India's position in the global market".

UPI transactions at record high of Rs 9.4 bn in May

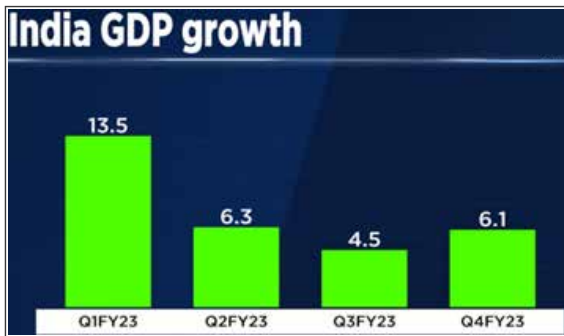
Unified Payment Interface (UPI) transactions in May rose to a new high of Rs 14.3 trillion in terms of value and Rs 9.41 billion in volume, a rise of 2% in value (Rs 14.07 trillion) and 6% in volume (8.89 billion) compared to April.

UPI witnessed a 58% YoY jump in transactions in terms of volume and 37% increase in value.

According to PWC India report, UPI is expected to account for 90% of the retail digital payments over the next five years.



Source - Adda 247



Source - CNBC TV18

India's GDP expanded 6.1% in 2022-23's last quarter

India's GDP growth surged to 6.1% in the Jan- Mar 2023 quarter, lifting the economy's uptick in 2022-23 to 7.2% from the 7% projection made earlier.

The growth in the January–March period was more than the 4.5% expansion in the previous October–December quarter of 2022–23.

Economists, however, warned that the global slowdown and volatility in financial markets pose a risk to exports and the growth outlook in coming quarters.

India's import of Russian oil scales new high in May 23

India's import of cheap Russian oil set a new high in May and is now more than the combined oil bought from Saudi Arabia, Iraq, UAE and the US, as per the industry data.

As per data from energy cargo tracker Vortexa, India imported 1.96 million barrels a day from Russia in May, 15% more than the previous high in April.

Russia was India's sole source of crude oil for the eighth consecutive month, contributing 42% of its total imports.



RBI withdraws ₹2000 note from circulation, to remain legal tender

RBI has decided to withdraw the ₹2000 denomination banknotes from circulation although they will continue to remain as legal tender.

RBI said that up to September 30, 2023 citizens will continue to be able to deposit ₹2000 banknotes into their bank accounts and/or exchange them into banknotes of other denominations at any bank branch.

According to experts and economists, this time, however, the move is anticipated to be less disruptive as a lower value of notes is being pulled over a longer period of time.

Govt cuts FAME-II subsidy on electric 2-wheelers from June

The government has lowered the subsidy provided under FAME-II (Faster Adoption of Manufacturing of Electric Vehicles in India) scheme applicable on electric two-wheelers registered on or after June 1, 2023.

The demand incentive for Electric 2-W will be Rs 10,000 per kWh. The cap on incentives for electric two-wheelers will be 15% of the ex-factory price of vehicles from 40% at present.

The total outlay for FAME Scheme Phase II is Rs 10,000 crore to provide incentives to buyers (end users or consumers) of electric vehicles to stimulate greater adoption, which may be encouraged as a purchase price.

FAME Game
 ARAI probe shows cos relying on imports for key parts
 ₹1,400 crore of subsidy withheld since April 2022
NEW SUBSIDY
 ₹10,000/kWh of battery from ₹15,000/kWh
 Subsidy cap at 15% of ex-factory price from 40%

Source - The Economic Times



Source - TradingEconomics.com

WPI inflation falls below zero to -0.92% in April, first time since July 2020

The annual wholesale price-based index (WPI) dropped to -0.92% in April this year, as compared to 1.34% in March 2023.

The WPI inflation fell below zero for the first time in nearly 3 years in April with prices softening across the board.

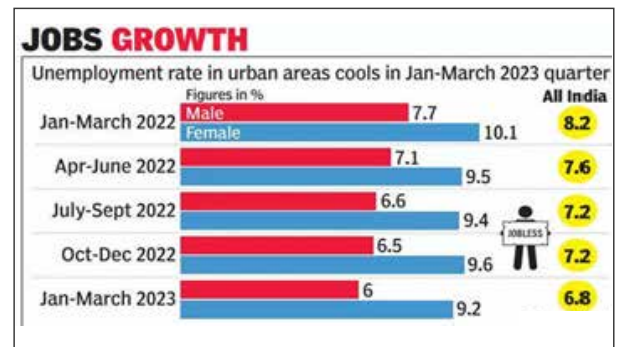
The price declines of basic metals, food, mineral oils, textiles, non-food items, chemicals and chemicals, rubber and plastic products, and paper and paper products are the main drivers of the decrease in the rate of inflation in April 2023.

Urban unemployment drops to 5-year-low in 2022-23: NSO survey

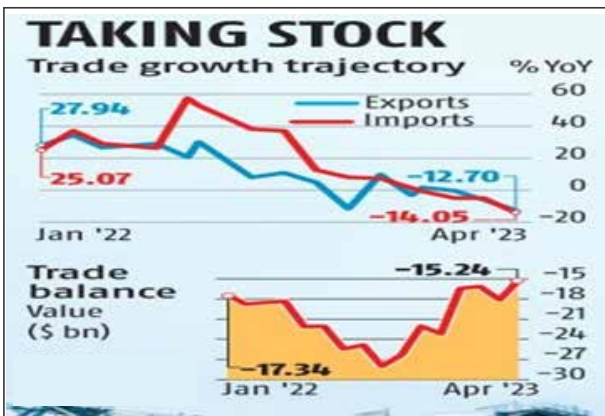
India's urban unemployment rate fell to its lowest level to 6.8% in the March quarter of FY23.

The rate was remarkably low for the first time since the National Statistical Office began publishing quarterly bulletins on urban jobs in 2018.

This marks the seventh straight quarter of improvement, showing a positive trajectory for the urban labour market's recovery from the impact of the pandemic.



Source - Times of India



Source - Business Standard

Exports fall for third consecutive month by 12.7% in April; trade deficit at 20-month low

India's goods exports shrank 12.7% YoY to \$34.66 billion in the first month of FY24, due to weak demand and recession in major markets.

Due to falling oil prices, the trade deficit fell to a 20-month low at \$15.2bn in April from \$18.36bn a year ago.

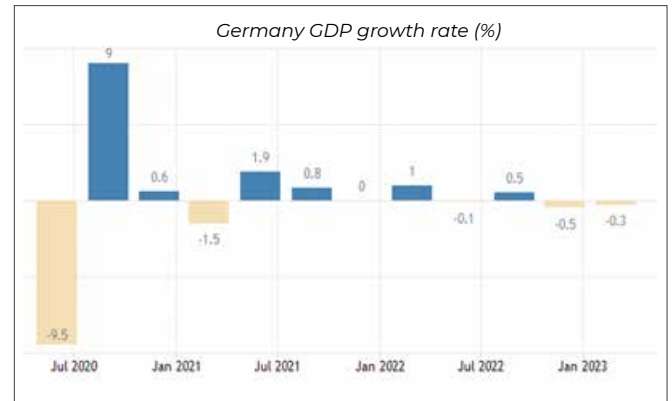
Petroleum products, gems and jewellery, engineering products, chemicals, and ready-made clothing made of all textiles were among the export industries that experienced negative growth in April.

GLOBAL NEWS THIS MONTH

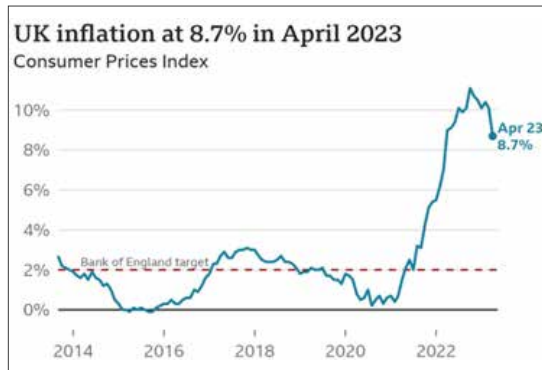
Germany enters recession after GDP falls for second successive quarter

Germany witnessed its second contraction in as many months, leading to a recession, with a 0.3% decline in GDP for the most recent quarter following a 0.5% decline in the last three months of 2022, as Germany struggled an energy crisis unleashed by Russia's invasion of Ukraine.

Europe's largest economy has been under a lot of pressure, especially in the wake of Russia's invasion of Ukraine and the subsequent decision of European leaders to cut ties with Moscow.



Source - TradingEconomics.com



Source - BBC News

UK inflation falls to lowest level in over a year but food prices keep decline in check

The UK's inflation rate has reached its lowest point since the immediate aftermath of Russia's invasion of Ukraine, however it didn't drop as much as was predicted due to high food prices.

The consumer prices index, decreased to 8.7% in the year to April from 10.1% in March, primarily because last year's energy spike in the wake of the invasion dropped out of the annual comparison.

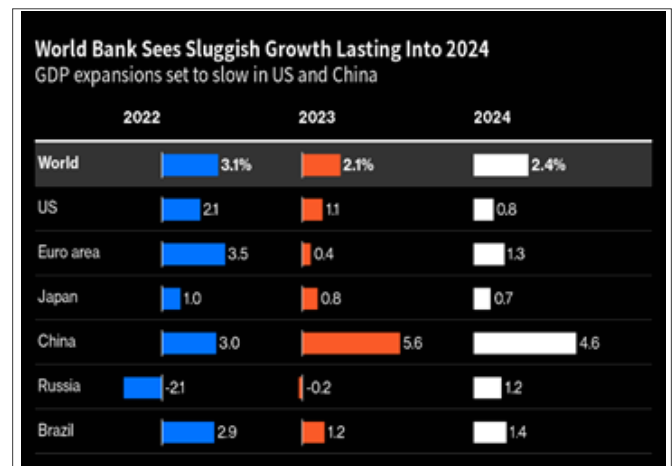
The fall took inflation to its lowest level since March 2022, a month after the war began.

'Precarious position,' World Bank on state of global economy amid high interest rates

According to the World Bank, the global economy is in a "precarious position" and rising global interest rates are intensifying the risk of financial stress in emerging market and developing economies (EMDEs).

The latest Global Economic Prospects report from the World Bank indicates, global growth has slowed sharply and is projected to fall from 3.1% in 2022 to 2.1% in 2023.

The bank forecasts that global trade will slow markedly this year. It foresees a sharp drop in energy and other commodities prices this year and next.



Source - Bloomberg

Biden signs debt limit bill, avoiding U.S. default

President Joe Biden signed a bill that suspends the U.S. government's \$31.4 trillion debt ceiling, avoiding a federal default that could have upended the world economy.

According to economists, the default could have caused the US unemployment rate to double while significant decline in gross domestic product.

The new law will suspend the borrowing limit until January 2025, ensuring the issue will not come up again before the next presidential election.





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