

MONTHLY NEWSLETTER

JUNE 2023



Jim Rogers

Quantum Fund & Soros Fund
Management, Co-founder

“Buy low and sell high. It’s pretty simple. The problem is knowing what’s low and what’s high.”



Shaktikanta Das

RBI, Governor

“The Indian banking system remains stable and resilient, with strong capital and liquidity positions, improving asset quality, better provisioning coverage, and improved profitability.”

WHAT'S INSIDE

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Scared To Buy At All Time Highs?

Read On.....

On 28th June, Nifty50 breached its previous all-time high price of Dec'22 and that marked the creation of a new all-time high (ATH). In between the market corrected by ~10%, with the market forming a low at ~16800 in Mar'23. From that low the market has rallied one way by ~15%. When the markets enter the all-time high territories, investors worry if this is the right time to invest.

Investors fear that they are paying prices which no one has paid before. It is very counter-intuitive to invest when the markets are at all-time highs. Majority of the investors prefer to bottom fish by trying to find the lows in the market. In the markets, no price is too high, and no price is too low. Timing the market is all but a futile exercise.

Since Jan 2000, there have been 459 days when markets have touched new all-time highs. The data suggest that in majority of the cases the index gives a positive return on different time intervals. Even on a lower time interval of 3 months, in 62% instances the index gave a positive return and in 20% cases the return were between 10-20%. As the time interval is increased to 3 and 5 years the positive return cases increase substantially to 80% and 96%. On the 5-year time interval in 60% of the instances the index gave more than 50% returns.

| NIFTY 50 | | | | | |
|--------------|------------------|-------------|-------------|-------------|-------------|
| Returns | % Times Occurred | | | | |
| | 3 Months | 6 Months | 1 Year | 3 Year | 5 Year |
| <0% | 38% | 28% | 27% | 20% | 4% |
| 0%-10% | 37% | 38% | 19% | 9% | 2% |
| 10%-20% | 20% | 20% | 17% | 15% | 11% |
| 20%-30% | 5% | 9% | 10% | 21% | 7% |
| 30%-40% | | 4% | 18% | 13% | 7% |
| 40%-50% | | 1% | 6% | 6% | 9% |
| > 50% | | | 2% | 17% | 60% |
| Total | 100% | 100% | 100% | 100% | 100% |

} 96%

Source: Niftyindices.com, Equentis Research

The above table suggests that investors shouldn't worry just because they are buying at all-time high as over the long term, investors generate reasonable returns. If we look at instances when the all-time high are created after a major decline such as 15% or more, the data suggests an even better outcome.

| Nifty50 | | | | |
|---------------------------------|------------|------------|------------|-------------|
| Previous All time high broken | 1 Month | 3 Months | 6 Months | 12 Months |
| 12-07-1999 | -1% | 13% | 23% | 16% |
| 26-12-2003 | 3% | -5% | -18% | 12% |
| 15-12-2004 | -5% | 5% | 5% | 37% |
| 30-10-2006 | 5% | 8% | 8% | 55% |
| 21-05-2007 | 0% | -5% | 30% | 20% |
| 09-12-2013 | -4% | 2% | 19% | 30% |
| 14-03-2017 | 0% | 5% | 11% | 14% |
| 09-11-2020 | 8% | 21% | 20% | 45% |
| 28-11-2022 | -3% | -7% | 0% | |
| % Times Positive Returns | 44% | 67% | 78% | 100% |

Source: Niftyindices.com, Equentis Research

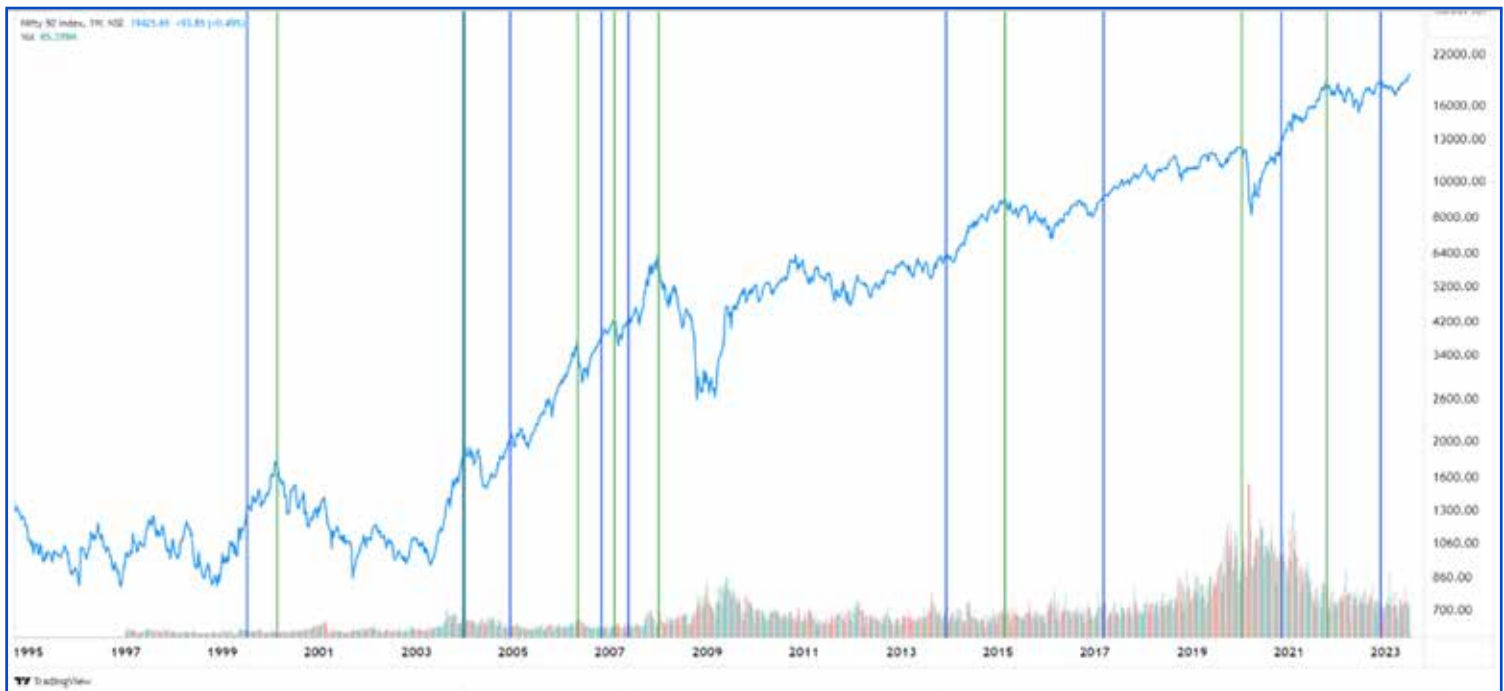
| S&P 500 | | | | |
|---------------------------------|------------|------------|------------|------------|
| Previous All time high broken | 1 Month | 3 Months | 6 Months | 12 Months |
| 13-02-1995 | 2% | 9% | 16% | 37% |
| 24-11-1998 | 3% | 8% | 12% | 19% |
| 13-07-2007 | -6% | 1% | -9% | -19% |
| 10-04-2013 | 3% | 4% | 7% | 18% |
| 11-07-2016 | 2% | 1% | 6% | 13% |
| 29-04-2019 | -5% | 3% | 3% | 0% |
| 18-08-2020 | -1% | 7% | 16% | 31% |
| 18-08-2022 | -9% | -7% | -6% | |
| % Times Positive Returns | 50% | 88% | 75% | 86% |

Source: Tradingview, Equentis Research

For Nifty50, when a new all-time high is created after a 15% or more decline, the returns created are as high as 30% on a 6-month time interval and 55% on 1 year time interval. As we go higher on the time interval the number of instances of positive returns increases substantially. On the 1 year time interval the returns in 100% of the cases have been positive. The last All-time high after a 15% decline was created on 28th November'22. This is yet to complete one year, but on a 6 months' time interval the returns have just broken even.

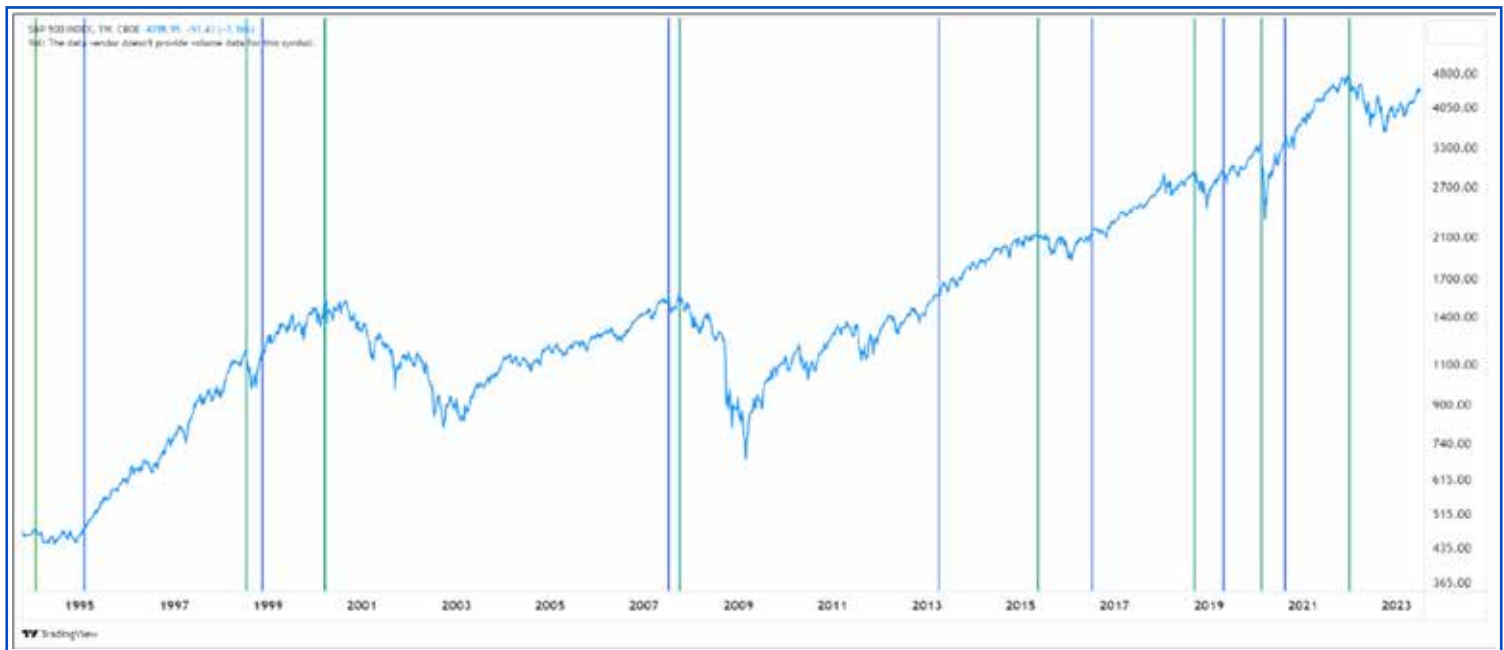
S&P 500 data also suggest a similar trend. In majority of the cases, the index has given positive returns when it is bought at All-time high after a 15% or more of decline. On the 6 month and 1 year time interval in 75% and 86% of the instances the returns have been positive. The return on 1 year time interval is as high as 31%. Only in 2007, the returns have been -19% on the 1-year time interval because of the Global Financial Crisis.

New ATH on Nifty50 after 15% decline



Green – All-time high to be broken, Blue- Previous all-time high (Green Line) is broken after >15% decline.
Source: Tradingview, Equentis Research

New ATH on S&P 500 after 15% decline



Green – All-time high to be broken, Blue- Previous all-time high is broken after >15% fall.
Source: Tradingview, Equentis Research

Conclusion

When the market touches new all-time highs, the general consensus is to sell and book profits as investors tend to equate prices at ATH with markets being overvalued. But it is seldom the case. Market touching new all-time highs suggest overall bullishness in the market which reflects the outlook on the businesses and the economy as a whole. There have been 459 instances of the markets touching new all-time highs on Nifty50 since 2000. To quote, Jesse Livermore, "Remember that stocks are never too high for you to begin buying or too low to begin selling."

Financial Stability Report

Financial Sector Health Keeps Getting Better

RBI, in its latest financial stability report, discusses the health and performance of the financial sector system.

Health of the banking sector

The banking sector is in the best of health. The balance sheet position, measured by the Capital Risk Weighted Adequacy Ratio (CRAR), is at its highest level ever of 17%. The Gross Non-Performing Assets (GNPA) is at a 10-year low of 3.9% and the Net Non-Performing Assets (NNPA), a measure of the bad loans which is yet to be provided is also at its lowest in 2 decades at 1%. Overall health of the sector reflects in the profitability, measured in the RoA of 1.1%.

A closer look at the asset quality trends shows consistently declining GNPA and NNPA ratio and consequent improvement in Provision Coverage Ratio (PCR) from 40% in Mar '15 to 75% in Mar '23. Also, Special Mention Accounts (SMA) 1 and (SMA) 2 accounts, which have higher proximity to default, have shown improvement with the total ratio of these two categories falling from 4.2% in Mar '21 to 2.3% in Mar '23. This has propelled the banking sector growth to 15%+ and sustaining, which is at a decadal high.

Banking sector soundness indicators – Improvement across the board in last 5 years

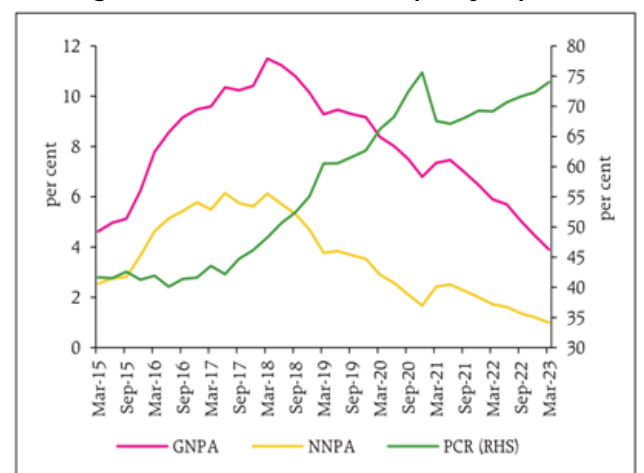


Source: RBI Financial Stability Report

What's driving the improvement?

The domestic financial system has been largely immune to the recent banking turmoil in some Advanced Economies. This is driven by the improving health of the corporate sector. The corporate sector leverage of listed private manufacturing companies has improved with an increase in cash position. Also, the share of debt held by listed private non-financial companies with interest coverage ratio (ICR) below 1 has been declining steadily from 2016-17. Moreover, their share in aggregate sales is low, indicating that the <1 ICR group is dominated by smaller companies.

Banking sector – Continuous asset quality improvement



Source: RBI Financial Stability Report

Ratios of Listed Private Manufacturing Companies



Debt share by Listed Private Non-Fin. Companies by ICR Categories

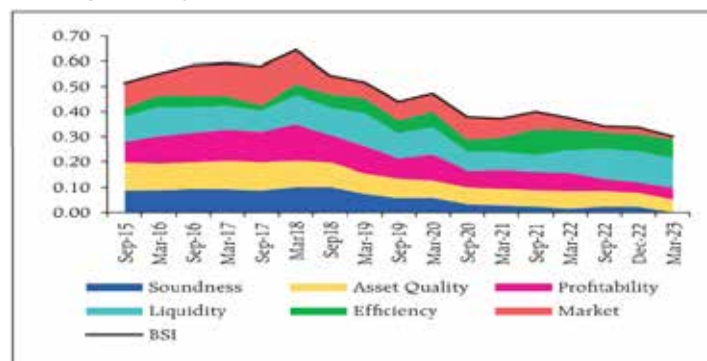
| Items | Audited Balance Sheet | | | | | | Half-yearly (unaudited) | | |
|--|-----------------------|---------|---------|-----------------|---------|---------|-------------------------|------------|------------|
| | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | H2:2021-22 | H1:2022-23 | H2:2022-23 |
| No. of sample Companies | 3,238 | 3,231 | 3,205 | 3,163 | 3,103 | 2,963 | 2,844 | 2,690 | 2,710 |
| Share in sample companies (per cent) | | | | | | | | | |
| ICR ≤ 1 | 35.5 | 34.2 | 34.1 | 37.6 | 34.7 | 32.6 | 32.7 | 28.2 | 27.5 |
| 1 < ICR ≤ 4 | 34.8 | 34.3 | 27.6 | 25.2 | 31.5 | 15.2 | 14.5 | 23.4 | 25.1 |
| ICR > 4 | 29.6 | 31.5 | 38.3 | 37.2 | 33.8 | 52.2 | 52.8 | 48.4 | 47.4 |
| Sales share of companies with ICR < 1 (per cent) | | | | | | | | | |
| | Manufacturing | | IT | Non-IT services | | | Aggregate | | |
| 2020-21 | 6.8 | | 3.0 | 44.1 | | | 10.5 | | |
| 2021-22 | 5.1 | | 1.6 | 36.5 | | | 9.3 | | |
| 2022-23 | 3.6 | | 1.3 | 20.9 | | | 5.4 | | |

Source: RBI Financial Stability Report

Banking Stability Indicator

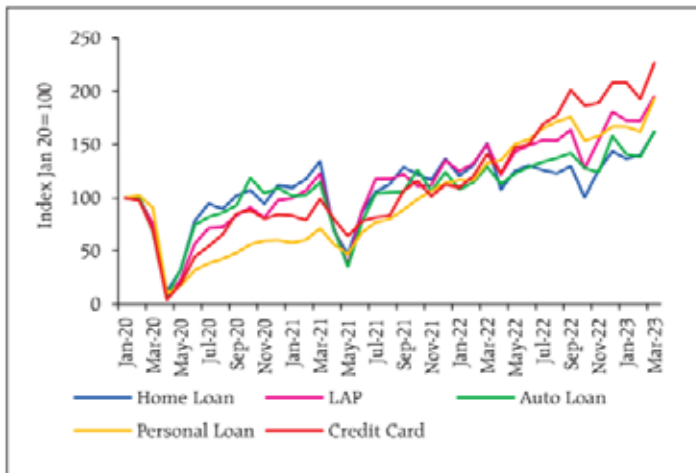
The Banking Stability Indicator is a function of the risk level in the system, with a higher value reflecting higher risk. The levels are meaningfully lower since Mar '18 with further improvement seen even in the past one year. This augurs well for the banking system and the economy in general, as the banking system is considered as the backbone of any economy.

Banking stability Indicator – individual risk factors on the decline



Note: Rise in the value of an indicator implies rise in risk level and vice versa. The width of each risk factor signifies its contribution towards aggregate risk. Source: RBI supervisory returns and staff calculations.

Inquiry volumes by product category on the rise

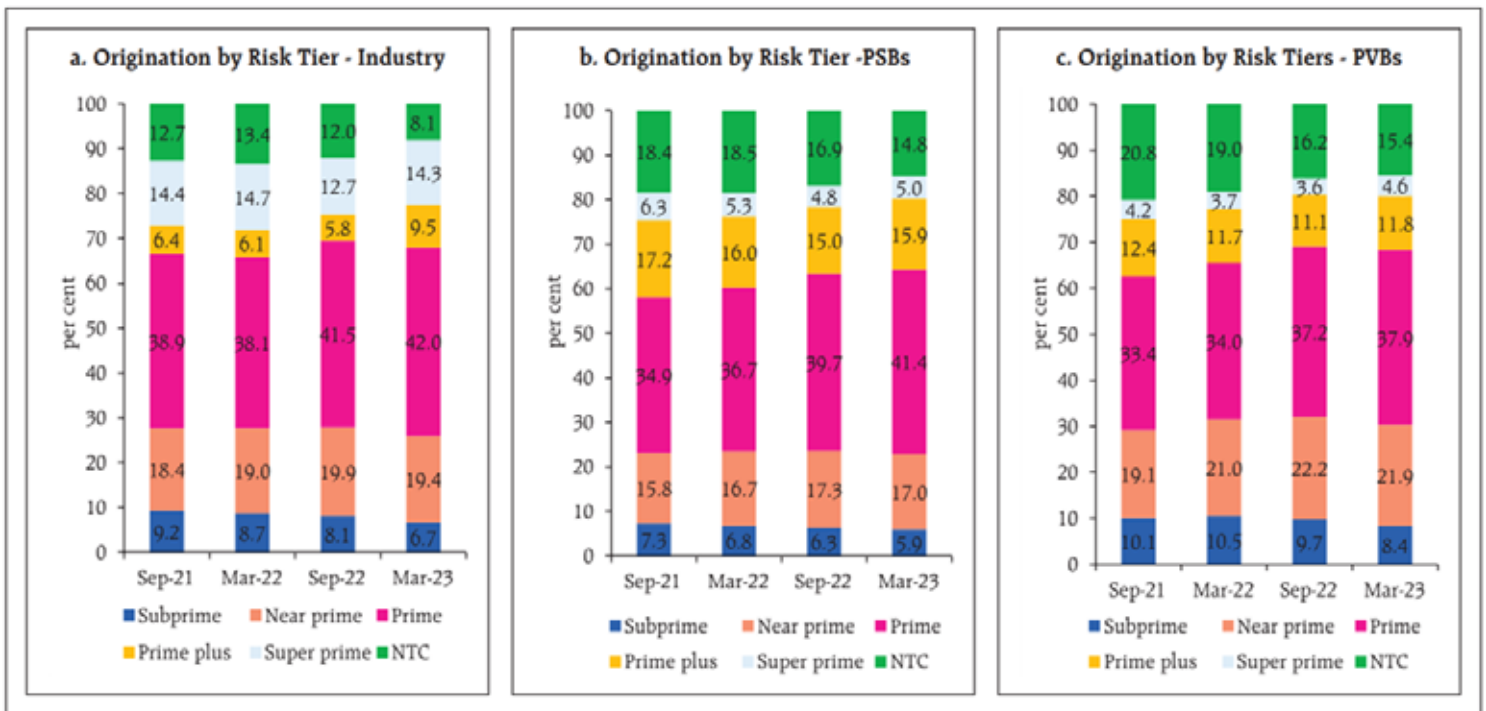


Source: RBI Financial Stability Report

Quality of consumer credit improves

The quality of consumer credit is improving, with loan originations seeing a reduction in the share of subprime and new to credit (NTC) customers and an increase in share towards prime plus and prime category customers. The inquiry volumes have picked up meaningfully post COVID and the lenders are carefully selecting quality customers to lend to.

Origination shifting towards higher rated Borrowers



Source: RBI Financial Stability Report

Conclusion

The financial stability report reveals a steady all-round improvement in the health of the banking system, also reflective in the banking stability indicator. With balance sheet strength being the best, asset quality and credit growth at decadal highs and profitability looking up, the banking system is in good stead. Low SMA pool (early warning indicators) and high PCR provide an indication that future NPA formation and provisioning is likely to be contained. Improving health of the corporate sector coupled with improving quality of the consumer credit is driving the robust performance.

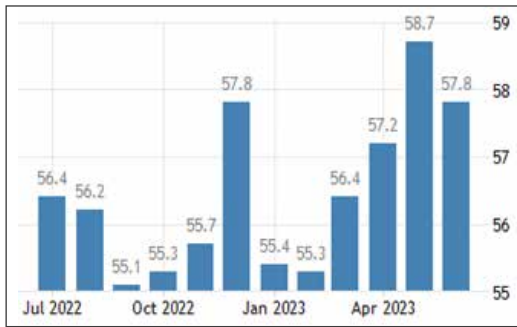
Key Business Updates For Q1FY24

| | |
|------------------------------|---|
| Titan | Revenue grew by 20% YoY, with double digit growth across all the key business categories. Jewellery business increased by 21% YoY and the buyer growth was higher than the average ticket size in Q1FY24. Watches & wearables and EyeCare division saw a growth of 13% and 10% YoY respectively. Added 68 stores during the quarter, bringing total retail presence to 2778 stores. |
| Dabur | In Q1FY24, as per management revenue growth is expected to exceed 10% YoY. Company expects its India business to report growth in high single digit. Demand trends across rural and urban markets have shown signs of improvement during the quarter. |
| DMart | DMart standalone revenue grew 18% YoY to Rs. 115.8bn in Q1FY24. It added 3 stores in Q1 taking the total number of stores to 327. |
| APL Apollo Tubes | Volume growth of 56% YoY and 2% QoQ, recording the highest-ever quarterly volumes of 6.6 lakh tons. Value Added Products (VAP) share stood at 57% vis-a-vis 54% in Q4FY23. |
| Nykaa | Revenue growth as per management is expected to be in mid – twenties in Q1FY24 on YoY basis. Consumption in Beauty and Personal Care (BPC) category continues to remain strong and is expected to grow in the early twenties YoY as per company, driven by strong urban demand. However, apparel industry has been impacted because of the slowdown in discretionary spending. |
| IDFC First Bank | Advances grew by 24.5% YoY and 6.7% QoQ, marking the fifth straight quarter with 20%+ loan growth. CASA ratio stood at 46.5% as compared to 49.8% QoQ. |
| HDFC Bank | Standalone advances grew 15.8% YoY and 0.9% QoQ while deposits increased by 19.2% YoY and 1.6% QoQ. The growth is in line with the industry as against earlier growth of 1.5 - 2x of the industry. |
| Bajaj Finance | AUM grew 32% YoY with stable mix. In Q4FY23, it added 3.84 mn customers and stood at 72.98 mn, the highest-ever quarterly increase in its customer franchise additions. |
| Ultratech Cement | UltraTech Cement volumes grew by 20% YoY, showcasing leadership in the industry. Capacity utilization for the quarter stood at 90%. |
| Bank of Maharashtra | Gross Advances grew by 25% YoY and flat on QoQ basis, while deposits saw a growth of 25% YoY and 4% QoQ. CASA ratio stood at 50.97% down from 53.38% QoQ and 56.08% YoY. |
| Tata Steel | Tata Steel's domestic deliveries increased 18% YoY to 4.8 mn tons in Q4FY23. However, performance was subdued due to planned maintenance shutdown, lower off-take in exports, and weak demand in Europe. |
| AU Small Finance Bank | Gross Advances grew by 29% YoY and 8% QoQ and deposits grew by 27% YoY and flat on a QoQ basis. CASA ratio stood at 35% as compared to 38.8% YoY and 38.4% QoQ. |
| IndusInd Bank | Net Advances increased by 21% YoY and 4% QoQ and deposits grew by 15% YoY and 3% QoQ. In Q4FY23, CASA ratio stood at 39.9% as compared to 43.2 % YoY and 40.1% on sequential basis. |

Source: Company Reports

"The securities mentioned above are for illustration & education purpose only and should not be construed as recommendation/advice."

What Caught Our Attention This Month !



Source - TradingEconomics.com

India's PMI manufacturing index softens to 57.8 in June from 58.7 in May

In June, India's manufacturing sector activity came in at 57.8, slightly lower than May's 31-month high of 58.7, marking two years of the index remaining above the 50- mark, separating expansion from contraction.

India's manufacturing industry expanded at the second-fastest rate this year in June, supported by robust demand despite higher inflationary pressures.

Companies ramped up production to meet the rising sales in June. The expansion in output was significant and among the fastest over the past year and a half.

Indian banks' gross bad loans fall to a 10-year low of 3.9%: RBI's Report

As per the RBI Financial stability report, scheduled commercial banks' gross non-performing assets (GNPA) ratio dropped to a 10-year low of 3.9% in March 2023, is expected to further decrease to 3.6% by March 2024.

Gross and net NPA ratios have shown significant decline, fallen from a high of 11.5% and 6.1% in March 2018 to 3.9% and 1.0% in March 2023 respectively.

Factors like higher loan growth, decline in slippages, better recoveries and write-offs of bad loans attributed to the improvement in the asset quality of banks in fiscal ended March 2023.



Source - The Economic Times



Source - CNBC- TV

Market cap of BSE-listed firms surpasses Rs 300 lakh crore mark

The combined market capitalisation of the companies listed on the Bombay Stock Exchange (BSE) has crossed the mark of Rs 300 lakh crore for the first time, after consistent flows from foreign investors propelled benchmark indices like the Sensex and Nifty 50 to fresh record highs.

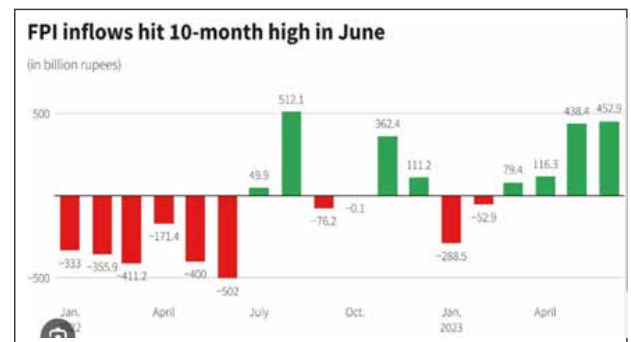
With a market capitalisation of \$3.6 trillion, Indian is ranked fifth among the global equity markets in the world.

FPI buying hits 10-month high of Rs 47,148 crore in June

June emerged as the best month with robust foreign portfolio investors (FPIs) inflows in the last 10 months amid improvement in macro-economic fundamentals.

In June, The FPIs pumped in Rs 47,148 crore in Indian equities. This would also be the fourth straight month where FPIs have continued to end as net buyers in domestic stocks.

In the first half of 2023, FPIs have invested a total of Rs 76,407 crore.



Source - Reuters



Overseas spending using credit cards not to attract TCS

The government announced on June 28 that overseas spending using the international credit Liberalised Remittance Scheme (LRS) and hence, would not attract TCS.

Furthermore, the implementation of a higher rate of tax collected at source (TCS) of 20% on overseas remittances under LRS such as tour expenses, has been deferred by three months and will now be effective from October 1.

However, credit card spending overseas will not attract TCS from October 1. The higher TCS rate will be applicable only when the LRS payments exceed the threshold of Rs 7 lakh.



India, US decide to end six trade disputes at WTO; Delhi to lift retaliatory tariffs

India and the US have agreed to end six trade disputes at the World Trade Organisation, and New Delhi will also lift retaliatory tariffs. This move is expected to boost two-way trade and strengthen economic connections.

The decisions come amid Indian Prime Minister Narendra Modi's State Visit to the US at the invitation of President Joe Biden and First Lady Jill Biden.

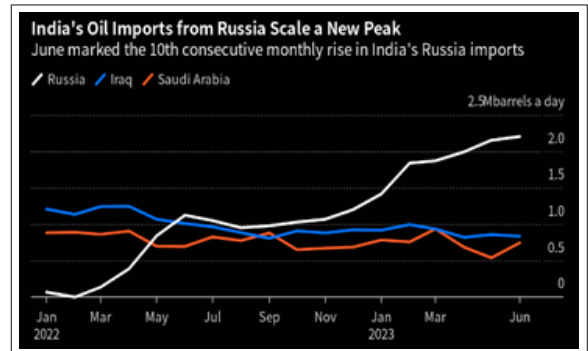
In 2018, The US had levied import taxes of 25% and 10% on certain steel and aluminium products respectively, citing national security concerns. In response, India imposed customs duties on 28 American products in June 2019.

India's Russian oil imports climb to new peak as limit nears

India's oil purchases from Russia reached a new peak in June, with the country approaching the maximum threshold of its extensive buying spree from the major oil producer.

According to Viktor Katona, the head of crude analysis at Kpler, stated that daily volumes climbed to 2.2 million barrels a day in June, marking the 10th consecutive month of growth.

Following the invasion of Ukraine, India emerged as a significant consumer of Russian oil, but due to infrastructure issues and the need to maintain good relations with other suppliers, the nation's buying could be near its limit.



Source - Bloomberg



India's 2022 global commercial services exports share doubled to 4.4%: WTO-World Bank

According to recent World Bank and WTO report, India's share of global commercial exports has doubled, reaching to 4.4% in 2022, from 2% share in 2005.

Cina and India doubled their share of global commercial services exports from 2005 to 2022, from 3.0% to 5.4% and from 2% to 4.4% respectively.

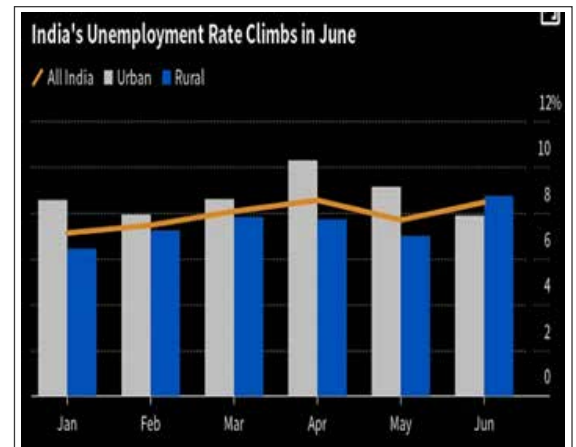
The report highlights four developing economies that have stood out in terms of their outstanding trade performance in services: China, Hong Kong, Singapore, and India. This expanded measure of trade in services is largely due to these economies that rank as leading services exporters and importers.

Weak Rural Labour Market Pushes India's Jobless Rate Above 8%

India's unemployment rate increased above 8% for the third time this year on the back of seasonal joblessness in rural areas, according to data from a private research firm.

According to CMIE (Centre for Monitoring Indian Economy Pvt), the unemployment rate increased to 8.45% in June from 7.68% in the previous month. While unemployment in urban areas eased to 7.87% last month, rural India witnessed a two-year high of 8.73%.

June is traditionally a lean season for the agricultural sector, an important source of income for the nation's rural population. Unemployment historically soars in India's villages in June as harvesting ends in May and sowing for a new crop gathers pace only in July when monsoon progresses.



Source - BQ Prime

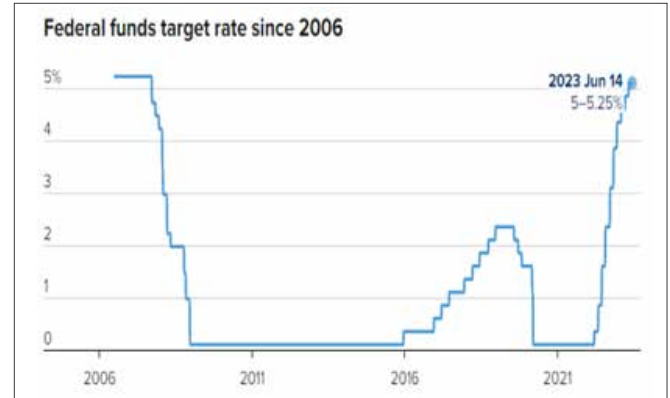
GLOBAL NEWS THIS MONTH

Fed keeps rates unchanged for first time in 15 months

The Federal Reserve decided to keep its key interest rate unchanged, maintained the range of 5 – 5.25%, after having raised it 10 straight times to combat high inflation.

However, Fed indicated that two more rate increases are expected before the year's end.

The decision to leave rates unchanged was widely anticipated, after a long run of rate hikes pushed the central bank's benchmark rate up by five percentage points and reach its highest level in 16 years.



Source - CNBC-TV

China purchasing managers' index (PMI)



Source - Reuters

China's June factory activity falls for third straight month: PMI

China's factory activity in June contracted for a third consecutive month, while non-manufacturing activity was at its lowest since Beijing ended its tight "zero Covid" policy late last year.

The official manufacturing purchasing managers' index (PMI) came in at 49.0 in June as compared to 48.8 in May and 49.2 in April.

The world's second-largest economy grew faster than expected in the first quarter largely due to a strong post-COVID rebound in consumption, but policymakers have been unable to maintain the momentum in the second quarter.

US consumer inflation eases for 11th straight month

In May, consumer inflation in the United States cooled for an 11th consecutive month on an annual basis, an encouraging sign for the policymakers.

The consumer price index (CPI) increased 4.0% from a year earlier in May and down from a 4.9% rise in April. This brings it to the lowest level in around two years, and less than half the peak rate of 9.1% in mid-2022.

The US Central bank has raised interest rates ten times in a row, in efforts

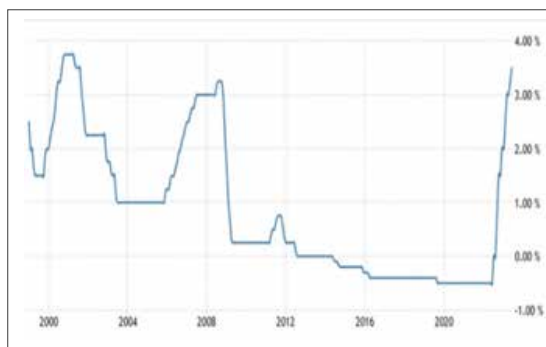


ECB raises rates by 25 basis points to 22-year high

The European Central Bank (ECB) increased interest rates by another quarter-point to 3.5%, bringing the borrowing costs to their highest level in 22 years.

Since July 2022, the central bank has raised rates in an effort to bring down record-high inflation across the region. The latest inflation reading showed prices cooling down at a faster-than-expected pace, with headline inflation coming in at 6.1% in May and core inflation - at 5.3%.

Signalled the possibility for more hikes, it continued to fight against high inflation amid faltering euro zone economy.



Source - TradingEconomics.com



THANK YOU

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