MONTHLY NEWSLETTER

JULY 2022

RESEARCH & RANKING™

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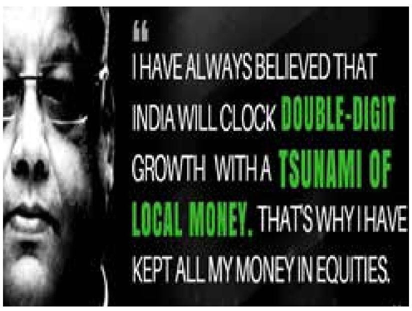


LESSONS FROM OUR PATRIOTIC LEADERS-
FROM INDIA'S INDEPENDENCE
TO FINANCIAL INDEPENDENCE

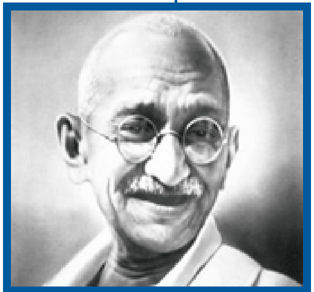
India's freedom fighters did not just free us from the British rule. While the Indian freedom struggle teaches patriotism, grit and sacrifice, we can also learn valuable investment lessons. We can achieve financial freedom for ourselves by combining the power of investments and the power of compounding. On this Independence Day, we must take a pledge to move towards financial freedom via long term wealth. Following are some valuable lessons that we Indians can learn from our freedom fighters.

"Swaraj is my birth right, and I shall have it!"- Lokmanya Tilak

Investing goals are not achieved in a flash. You need to be hell bent on and work consistently toward achieving your investment goals with determination, patience and perseverance.

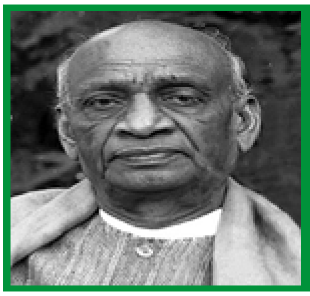
"The world is sufficient for man's need but not for man's greed"- Mahatma Gandhi

Your desire to make quick money may lead you to fall victim to dodgy schemes that promise large returns which can drain your funds. It's always good to invest in a reputed and trusted financial advisor like Research & Ranking, that may not bet on the fastest horse but a stable long lasting horse.



"Whatever you do may seem insignificant to you, but it is most important that you do it"

Your decision to invest every month at an early age may seem quite insignificant to you, but you will be surprised to find out the amount you have accumulated in the long run. The steady investment will instil financial discipline and prepare a safety net for the future.

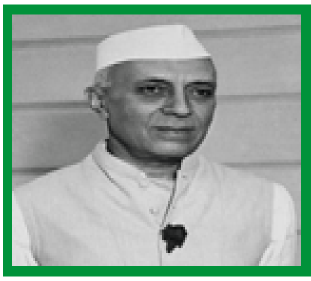


"Faith and strength are the key to accomplish any task" – Sardar Vallabhbhai Patel

Over the long run, equities have created value for investors and outperformed other assets classes. But equities are volatile, and one has to be mentally strong with conviction in the power of compounding. Achieving financial freedom is a lot more about mental strength and conviction.

"Bombs and pistols don't make a revolution. The sword of revolution is sharpened on the whetting stone of ideas."- Shahid Bhagat Singh

Bhagat Singh always insisted on experimenting with different ideas for revolution. The same holds true for investment. We should think beyond the traditional investment instruments such as bank fixed deposits, physical gold, post-office investment schemes etc and revolutionize our finances with shares, mutual funds etc.



"Facts are facts and will not disappear because of your likes"
- Pandit Jawaharlal Nehru

When it comes to investing, we need to be practical and accept the reality. We all do not like the market crash and have no control over it, but we have to live with it. Rather we should focus on how we can make the best of it by adopting suitable strategies.

PM'S 25 YEAR VISION FOR A DEVELOPED INDIA

How's the Josh? High Sir!!

On our 76th Independence Day, Prime Minister Narendra Modi addressed the nation from the ramparts of the Red Fort. Modi coined **'Panch Pran' or 'Five Lifeblood Resolves'** for the nation when it celebrates its 100th year of independence in 2047.

He has set an ambitious target of making India a developed nation by 2047 and made a renewed pitch for cutting import dependence and boosting domestic manufacturing.

Panch Pran for the Economy/Human System

In yoga, the Panch Pran or vital forces are the energies that moves the entire body system and we need to work on these through yoga asanas, mudras, breathing exercise for restoring balance. Similarly, the Panch Pran listed out by PM Modi will be the vital forces and the key to the development of India's economy.

Key Excerpts from PM Modi's Speech

Panch Pran

- **Goal of Developed India:** India should move ahead with a big resolve of a developed nation and that we should not settle for anything less than that.
- **Remove any trace of colonial mindset:** There should not be any ounce of slavery in any part of our existence, not even in the deepest corners of our mind or habits.
- **Pride in our roots:** We should feel proud of our heritage and legacy as it is this legacy that has given India its golden period in the past and it is this heritage that transcends tests of tide and times and embraces the new.
- **Unity & Solidarity:** Amongst our countrymen when there is harmony and bonhomie, unity becomes its strongest virtue. 'Ek Bharat Shreshtha Bharat' is one of the unifying initiative taken by the government.
- **Sense of Duty:** We have to lay emphasis on the duties of a citizen for a nation. When dreams are large, when resolves are large, the effort has to be bigger.

Aspirational India

- Every strata of society are brimming with aspirations. Every citizen wants change, wants to see progress soon and are not ready to force their future generations to live in wait.
- Today we are witnessing the structure of Digital India and looking at startups. Youngsters living in Tier 2 and 3 cities or living in villages are bringing in new discoveries

Holistic Healthcare/ Organic & Natural Farming

- Today the world is discussing about India's yoga, India's Ayurveda and India's holistic lifestyle.
- It is our duty to do chemical free farming, organic farming and natural farming.
- A voice should come from each field to move forward by saving water by focusing on 'per drop more crop'

Digital India

- India has come up with the most progressive policy regarding drones
- We are all set to enter the 5G era. Ensuring optical fibres reaches each and every village until the last mile
- Digital India movement of developing semi-conductors, entering 5G era, spreading the network of optical fibres is possible because of three missions- transformation of education eco-system, health revolution infrastructure and improvement in quality of citizen's lifestyles.

'AatmaNirbhar Bharat'

- Multiple employment opportunities opened with the creation of Green Jobs
- Speaking of PLI scheme, people from all over the world are coming to India to try their luck. India is becoming a manufacturing hub and building a foundation for a Self-reliant India
- India is progressing very fast be it in terms of manufacturing of electronic goods or mobile phones. Our Brahmos is exported to the world. Our Vande Bharat train and metro coaches are becoming objects of attraction for the world
- Also call upon the private sector to come forward and dominate the world. We have to take our products to the world with Zero Defect, Zero Effect and be proud of Swadeshi
- We are dependent on fuel from Gulf. We have now decided to move toward bio-fuel. India has realized the dream of 10% ethanol blending before time

GROWTH IN BANKING SYSTEM CREDIT
WILL THE GOOD TIMES LAST...

Amidst all the din about rising cost of living and a possible global economic recession, the news about a pickup in non-food credit growth often gets ignored. After a lacklustre mid-single digit growth over a two-year period, non-food credit growth has picked up steam. Data collected by the RBI from 33 scheduled commercial banks (accounting for ~90% of the total non-food credit employed) shows that as of the first fortnight of Jun-22, outstanding credit has grown a healthy 13.7% YoY to Rs 121 trillion.

The percentage is not to be scoffed at, as it marks a two and a half year high clearly indicating that growth has bounced back to pre-Covid levels. Before we get into whether this trend is sustainable or not let's first analyse in a little more detail about which segments are driving this growth.

Retail Sector

As the charts below shows, the brightest spot continues to remain the retail loan segment. Constituting around 29% of the total non-food credit, this segment has grown by a rapid 18% YoY. In fact, retail loans have never quite seen a slowdown even during the pandemic, having grown in double digits in the previous two year period. Within the retail loan segment, while housing loans have grown by a steady 15% YoY, vehicle loans, credit cards and consumer durables have been the main drivers. This would indicate continued traction in urban middle/upper class consumption as this was the segment which was relatively less impacted by the pandemic. However, one should also remember that higher prices of vehicles and durables following higher commodity prices is also a factor at play here.

Chart 1: Sector wise Outstanding Bank Credit as on (Rs trn) and YoY growth (%)

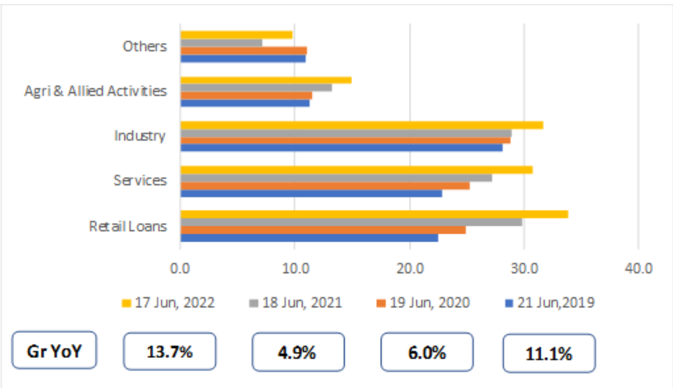
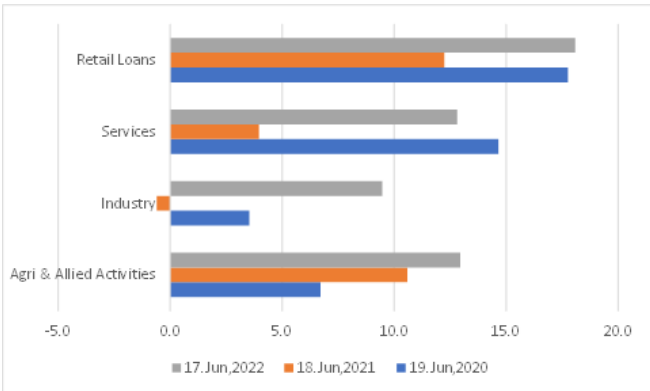


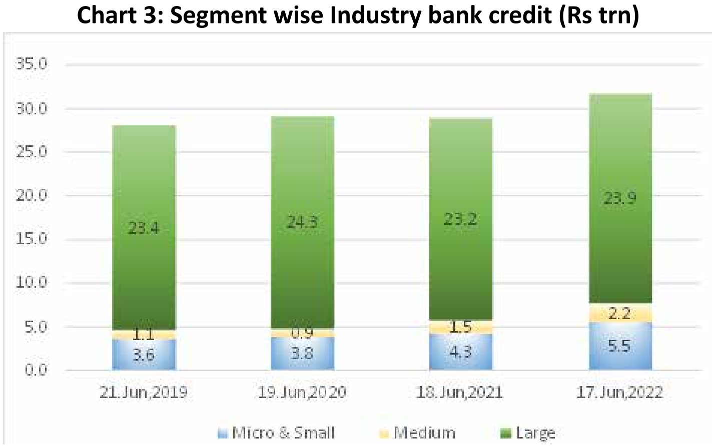
Chart 2: Sector wise Bank Credit growth (% YoY)



Industrial Sector

Now coming to the industrial sector (16% of total non-food credit), the growth appears relatively muted at 9.5% YoY. However, if one just scratches the surface, one will see that credit to medium, small and micro enterprises have jumped 34% YoY over the last one year. As one would recall, these segments were the most impacted by the pandemic. The recovery in economic growth coupled with the MSME package of Rs 3 trn (lakh crs) announced by the government during the pandemic period have helped this sector to come out of stress.

Chart 3: Segment wise Industry bank credit (Rs trn)



- Looking at a slightly more granular level, some of the industries that have driven credit growth have a large number of MSMEs as part of their value chain. These include food processing, drugs and pharmaceuticals, rubber and plastic products and electronics. In this context, we believe regional banks having a niche customer base within the MSME segment should do well going forward.

- Within the industrial sector, growth in credit for the infrastructure segment (38% of industrial sector loans) has been driven by sectors like telecommunications and roads. While the telecom sector has been debt laden for a long time, the future will not be very different given the huge investments needed in setting up a 5G ecosystem. Investment in road building is one of the few bright spots as far as building infrastructure is concerned. With the pace of execution picking up, credit growth has been a robust 18% YoY in the last one year despite a high base of 30%.

Services Sector

In the services sector (25% of total non-food credit), growth has been a steady 12.8% YoY. Not surprisingly, this has been driven by a 15-18% YoY growth in the retail and wholesale trade segment. Just like the MSME sector, trade activities also slowed down during the pandemic.

The moot question that now arises is whether this growth is sustainable or may just turn out to be short lived given the prospects of higher interest rates going forward and a likely decline in commodity prices.

Our View

The medium-term prospects for credit growth look promising due to the following reasons –

1. With urban consumption growth picking up, we can expect the retail loan segment to continue to do well. One of the factors leading this is the domestic IT sector which has seen higher recruitments and a jump in average salary levels. Traditionally, the fortunes of the IT industry have been an important driver for real estate, personal vehicles and consumer durables in certain regions. With crude oil prices remaining firm, many Middle Eastern economies have seen better growth over the last 12-18 months. This should ideally translate into higher remittances into India which is also a key driver for personal consumption in some states.

2. The recent pickup in real estate activities after a long slump should also continue for some more time thus driving growth in housing loans at least in urban areas.

3. On the capital expenditure front, the next few years will see major investments in sectors like chemicals and pharmaceuticals (China plus 1 factor), defence equipment and electronics (government's push to become "Atmanirbhar"), roads, railways (new orders for wagons, locomotives and passenger coaches), sugar (ethanol plants), paper, renewable energy (solar and wind parks), cross-country gas pipelines (and related infrastructure like CNG stations) and oil refining and petrochemicals (IOC, HPCL).

4. The slew of PLI schemes announced by the government for 14 sectors till date will be another driver for new investments in sectors like auto and auto ancillary, textiles/apparel, white goods, electronics and IT hardware, pharmaceuticals etc. Investments by large industries will in turn drive MSMEs serving these sectors to follow suit.

Conclusion

Given the fairly comfortable or improving stressed asset (NPA) book for many private and public sector banks, they can be a bit more aggressive about growth. Without this buffer, bank credit growth could have slowed down in a rising interest rate scenario. In addition, with margins for NBFCs likely to contract due to rising interest rates, banks with their low-cost liabilities are better placed to drive credit growth going forward. In summary, we would believe that barring an unforeseen event like Covid, the domestic banking sector is able and willing to take advantage of the ample opportunities for credit growth.

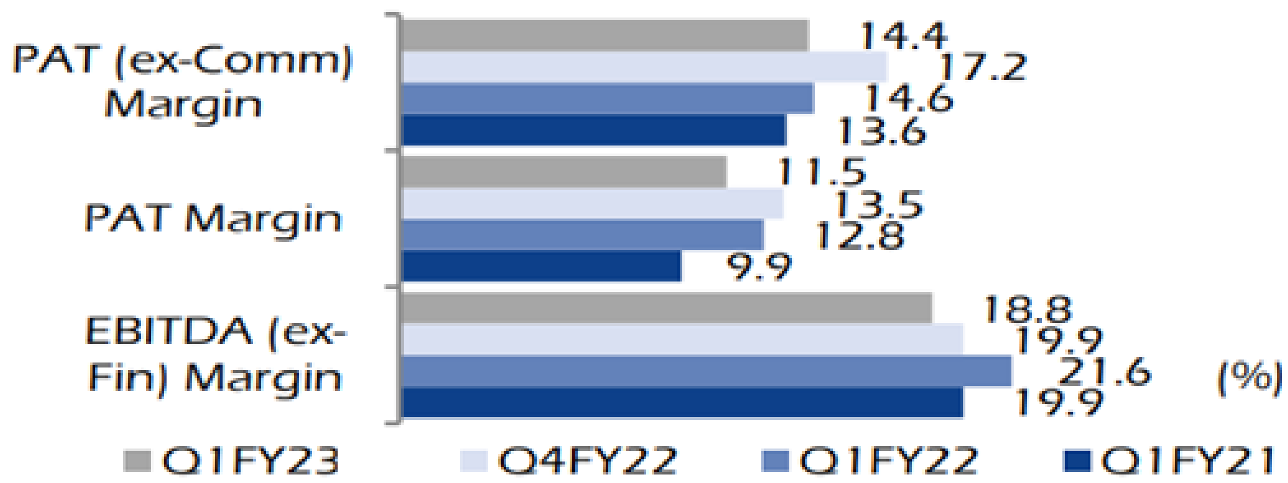
Q1 FY23 REVIEW

HIGH-COST IMPACTS INDIA INC. Q1 FY23 PERFORMANCE DESPITE STRONG TOP-LINE GROWTH

- Nifty 50 ex-Financials & Energy Q1 FY23 YoY earnings growth remained flat even as top-line recorded strong growth largely due to higher commodity prices and sharp inflation
- Overall corporate performance expected to improve in H2 FY23 backed by softening commodity prices and rising consumption

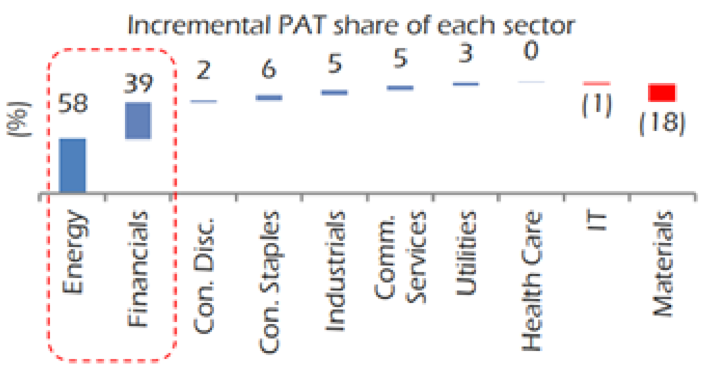
In-line to street view, profitability during the quarter was impacted by higher raw material prices wherein Nifty's ex-Energy ex-Financials earnings saw ~8% miss against consensus estimates. Raw material costs formed ~39% of Q1 FY23 revenue, highest in at least 13 quarters. Overall, of the results released earnings disappointment was higher amongst mid and small caps mainly due to lack of pricing power, whereas top 100 companies were still in line to expectations.

Q1 Nifty PAT margin down 1.3% YoY on higher raw material costs



*Nifty ex-Commodities (ex-Comm) include Materials & Energy

In Q1 FY23, Nifty 50 registered strong revenue growth, overall and ex-Energy & Financials at 35% YoY and 25% YoY, respectively led by healthy demand. Nifty 50 headline earnings growth at 21.5% YoY was strong driven by Financials and Energy, however, Nifty 50 ex-Financials & Energy remained flat YoY.



Sectorial basis performance remained mixed bag; Energy and Financials where the key drivers of Nifty's YoY incremental PAT during the quarter. Within Energy while oil marketing companies (OMCs) experienced high losses, strong gross refining margins (GRMs) and inventory gains benefitted upstream companies. Banking and NBFCs reported better show backed by higher loan disbursement, lowering credit costs and improved collection efficiency. Consumer staples contribution was healthier during the quarter vs previous quarters led by price hikes and some volume growth. Whereas IT sector due to wake hike related margin pressure and mining & metals on account of high energy costs reported poor numbers.

FY23 /FY24 Nifty consensus earnings expectations have been revised downwards by about 2%-3%. All sectors within Nifty, except Staples and Energy, saw a downgrade in aggregate PAT expectations.

Q1 FY23 earnings performance, a function of consumption-oriented sectors and Energy led by higher pricing (Nifty 50 Performance)

Sector (GICS classification)	Sales		Ebitda		PAT	
	YoY(%)	QoQ (%)	YoY(%)	QoQ (%)	YoY(%)	QoQ (%)
Communication Services	22.2	4.1	25.9	3.8	469.5	-18.4
Consumer discretionary	57.8	7.5	84.7	4.7	83.4	-3.4
TAMO	8.3	-8.3	-54	-70.9	NM	NM
Consumer Staples	25.3	7.4	23.9	2.9	22.3	-0.9
Energy	61.2	10.3	60.5	7.8	62.7	3.4
Health Care	5.7	4.3	-3.1	9.1	1.1	8.5
Industrials	19.1	-28.6	19.5	-21.8	39.2	-17.5
Information Technology	18.9	4.7	4	-3.1	-0.9	-8.5
Materials	31.2	-7.1	-9.1	-10.8	-20.1	-25.4
Utilities	35.9	13	11.5	-5.8	11.1	-19
Financials	19.5	0.6	NA	NA	33.2	-11.3
Commodities oriented sectors	49.9	3.9	27.1	0.6	22.2	-8
Consumption oriented sectors, ex TAMO	44.1	7.5	45.1	3.7	42.6	-2
Defensives	49.1	9.7	38.1	4.6	44.6	-0.8
Cyclicals	27.4	-3.3	3.2	-7.7	11.3	-13.7
Nifty 50	**35.3**	**2**	**NA**	**NA**	**21.5**	**-13.1**
Nifty 50 ex Financials	**37**	**2.2**	**19.1**	**-3.5**	**17.5**	**-13.8**
Nifty 50 ex Financials, ex Energy	**25.5**	**-2.2**	**5.3**	**-8.4**	**0.9**	**-21.4**

*Dated 15 August,2022

~219 companies within Nifty 500 (ex financial) have reported so far*

Sectors	Sales		EBITDA		PAT	
	YoY % growth	% Variance	YoY % growth	% Variance	YoY % growth	% Variance
Energy	76.9	3.9	28.8	12.2	14.8	-9.1
Consumer Discretionary	57.7	8.9	189.0	1.1	36,372.1	3.8
Health Care	2.7	-2.0	-4.9	-2.3	-4.2	1.6
Information Technology	21.0	1.4	4.0	-3.0	-0.4	-4.4
Communication Services	15.5	1.6	2.3	-14.9	4.3	NM
Industrials	21.2	-11.4	44.1	10.8	101.9	3.8
Materials	30.8	4.8	-9.5	4.3	-9.1	-2.7
Consumer Staples	30.0	17.6	21.0	10.1	33.5	6.1
Real Estate	76.6	8.6	51.9	-0.2	129.9	-5.3
Utilities	64.2	38.2	18.6	26.2	31.9	31.6
Total (ex financial,TTMT)	43.9	5.2	13.6	5.5	15.0	-2.8
Total (ex financial,communication services,TTMT)	44.5	5.3	14.1	6.4	14.3	-0.6

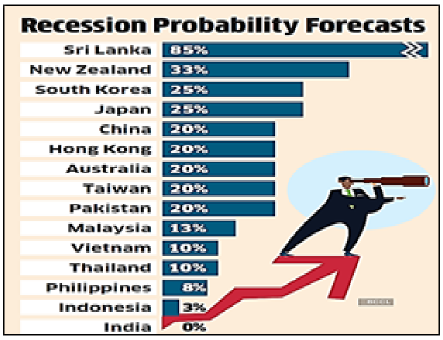
*Dated 7 August,2022

In terms of count, Sales / EBITDA / PAT was ahead of expectation

	Beat	In-line	Miss	Total
Sales	102	90	27	219
EBITDA	81	47	61	189
PAT	85	32	81	198

Beat means actual higher than estimates by 5%; while miss means actual less than estimate by 5%

WHAT CAUGHT OUR ATTENTION THIS MONTH !



Zero probability of India getting into recession or stagflation

According to economists, there is zero probability of India slipping into recession even though there are several major economies who are in substantial risky position of getting into recession

Furthermore, they also added that the odds of the US entering one is around 40%, while Europe stands at 50-55%

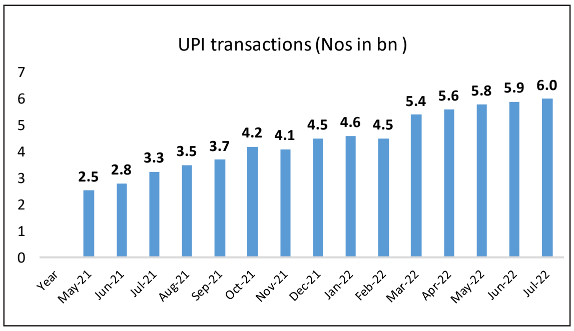
FM Sitharaman asserted that India does not face any risk of recession as its macroeconomic fundamentals are "perfect"

UPI records 6 billion transactions in July, highest since 2016

UPI recorded a 7.2% MoM increase in transactions and over a 90% increase annually.

UPI's target is to process a billion transactions a day in the next five years from the current 200 million transactions per day

RBI's decision to allow linking of Rupay credit cards to UPI is expected to provide a huge boost to the volume as well as value of transactions in the coming months.



5G spectrum auction ends; total bids at over ₹1.5 lakh crore

India's first ever 5G spectrum auction concluded on 1st August 2022.

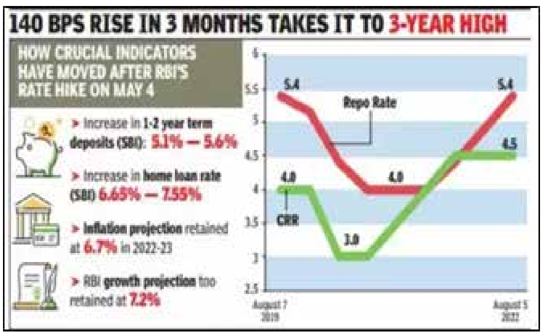
5G will provide data 10 times faster than 4G and rollout of 5G is expected by October this year.

Communications minister Ashwini Vaishnaw said the Telecom sector may see Rs 2-3-trillion investment in next 2 years on the back of conducive reforms and successful conclusion of 5G spectrum auctions

India's services sector growth at 4-month low in July

India's services sector lost momentum in July as demand was reduced by competitive pressures, elevated inflation and unfavourable weather.

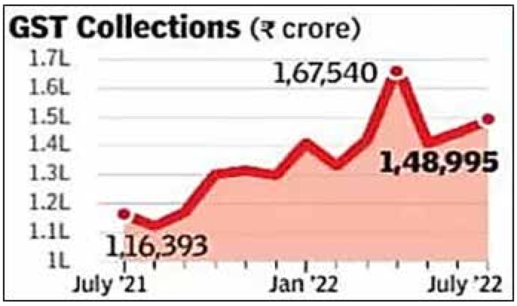
The Services PMI Business Activity Index fell from 59.2 in June to 55.5 in July, pointing to the slowest rate of growth in four months.



RBI hikes repo rate by 50 bps to 5.40% in its third hike in 4 months

The RBI hiked the repo rate for the third straight time in the current fiscal to control the inflationary pressure, taking the key policy rate to pre-pandemic level.

Economists expect RBI to raise the repo rate by 25-35 bps in September and 25bps in December to 5.9-6% and pause thereafter to assess the growth-inflation dynamics.



July GST revenue at ₹1.48 lk cr, second-highest since rollout

The GST revenue for the month of July increased by 28% yoy to nearly Rs 1.48 lakh crore as against Rs 1.44 lakh crore in June

GST revenue collections crossed the ₹ 1.5 lakh crore mark for the first time in the month of April at ₹ 1.68 lakh crore.

Better reporting coupled with economic recovery has been having positive impact on the GST revenues on a consistent basis

PM launched India's first international bullion exchange(IIBX)

IIBX set up at the GIFT City, Gandhinagar is promoted by CDSL, India INX, NSDL, NSE and MCX.

Qualified jewellers will be able to directly import gold, a change from current rules where only some banks and nominated agencies approved by the central bank can do so

IIBX will facilitate efficient price discovery; ensure standardisation, quality assurance and sourcing integrity; and help bring more foreign traders to India

FIIs turn net buyers in the latter part of July after sustained selling spree over 9 months

FPIs turned net buyers towards the end of July and they have turned into aggressive buyers in August

Depreciation in US dollar (dollar index declined from above 109 during late July to around 105.26 on August 12th) is the primary driver of capital flows to emerging markets

India is a preferred destination since India has the best growth prospects among large economies of the world

Core sector growth slows to 12.7% in June

India's eight core sectors grew 12.7 percent in June, slowing from an upwardly revised 19.3 percent in May, the commerce ministry said on July 29.

The 8 sectors include coal, natural gas, refinery products, electricity, fertilisers, cement and steel.

India’s economy is recovering from the pandemic but faces headwinds such as a looming slowdown in the West and continued uncertainty due to the Russia-Ukraine war.

GLOBAL NEWS THIS MONTH

US GDP falls for a second straight quarter, declines by 0.9% in Q2

The U.S. economy appeared to shrink for the second consecutive quarter, according to federal data released, amid growing concern the U.S. could be slipping into a recession.

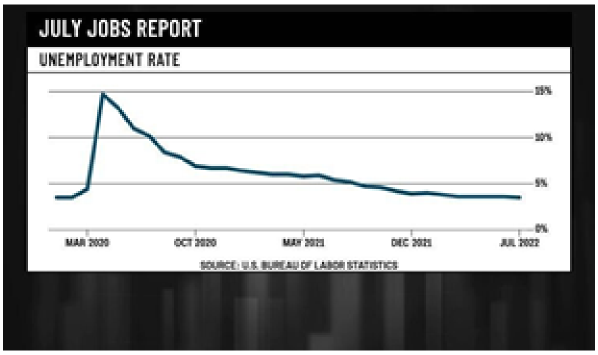
Many economists expected GDP to fall in Q2 as the economy faced more pressure from high inflation, rising interest rates, slowing job growth, falling home sales and other headwinds.

US adds 5.28 lakh jobs in July, unemployment rate falls to 3.5%

U.S. job growth unexpectedly accelerated in July, lifting the level of employment above its pre-pandemic level and pouring cold water on fears the economy was in recession.

Nonfarm payrolls increase 528,000 in July, the largest gain since February

July marked the 19th straight month of payrolls expansion, and blew off economists' expectations for a gain of only 250,000 jobs



UK may enter its longest recession since 2008 this year, warns Bank of England

The expected recession would be the longest downturn since 2008, when the UK banking system faced collapse, bringing lending to a halt.

Interest rates rose to 1.75% as the Bank battles to stem soaring prices, with inflation now set to hit over 13%.

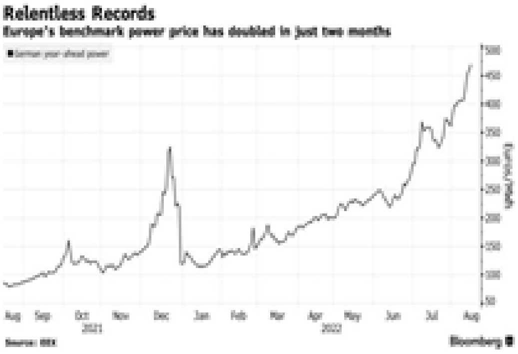
The economy is forecast to shrink in the last three months of this year and keep shrinking until the end of 2023

Biden signs Inflation Reduction Act into law

President Joe Biden signed a sweeping $750 billion health care, tax and climate bill into law

The legislation called the Inflation Reduction Act, is being billed as a way to slow price increase

The $437 billion spending package is expected to raise $737 billion in revenue over the next decade the biggest share coming from reductions in drug prices for Medicare recipients and tax hikes on corporations.



European energy crisis worsens

European power prices jumped to a fresh record deepening the energy crunch that's threatening to plunge the region into a recession.

Energy is driving inflation across Europe, pushing consumer-price increases into double-digit territory.

THANK YOU

We would love to hear from you...

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