FINGINE Report

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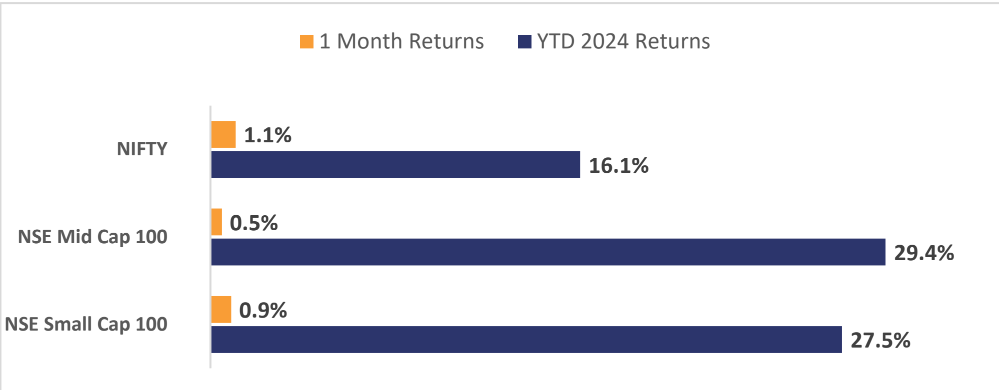
August was a month of marginal gains for Indian equities after intermittent periods of sharp volatility through this period. In the early part of the month, equity valuations globally were impacted by the decision of the Bank of Japan to raise interest rates by 25 basis points after a gap of 15 years, leading to unwinding of the yen carry trade and commensurate selling pressure in equity values. However, in a bull market environment, the impact of this development remained visible only for a few days with the rising expectations of a dovish monetary policy stance by the US Federal Reserve. Subsequently, US GDP has been revised up by 20 basis points, reflecting improved consumer spending and private investments.



From the domestic macro perspective, India's Q1FY25 GDP data was announced towards the end of the month with growth coming in at 6.8%. Government spending slowed down during the general elections conducted in Q1 and growth in the agriculture sector was impacted by prevailing adverse weather conditions. Capital expenditure and private consumption expenditure were the strong points of the economy, up 7.5% and 7.4% respectively. Over the coming quarters, GDP growth may be expected to accelerate and the month of July has already seen a sharp recovery in the government's capital expenditure. Bank credit to industry also saw double-digit growth in July '24 led by demand from medium and small companies.

The previous month also marked the close of the Q1 financial results season. Summary takeaways: 1) deceleration in profit growth across BSE 500 companies, 2) margin benefits from low input costs no longer visible unlike in FY24, 3) continuing single digit topline growth, 4) slow expansion in employee cost, 5) BFSI earnings moderation with underlying increase in credit cost, 6) Nifty EPS estimates for FY25 downgraded by brokerages. Technology, pharma and consumer durables were outperformers, while positive commentaries in consumer staples heightened expectations of growth in the coming months.

At the current juncture, with the markets remaining on the ascendent, valuations at the higher end of the historical range and weakness in recent financial performance, investors have the arduous task of finding quality at reasonable multiples. Currently, almost half the companies from the universe of larger caps trade at more than 50 times earnings. While there is consistent support to valuations from monthly SIP inflows (up 53% year-on-year to Rs. 23,332 crore in July '24) in addition to the growing direct retail participation (demat accounts in the country now exceed 17 crore), the supply of equity capital has also scaled up sharply with an increasing number of IPO's, sell-offs by private equity as well as dilution by promoters through open-market selling. Supply of equity capital has exceeded Rs. 1,30,000 crore till date, which has been absorbed in the prevailing bullish environment.

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