Ladderup
WEALTH MANAGEMENT

We focus on "doing the right things" than doing too many things.

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Navigating Turbulent markets during geopolitical uncertainties

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In October, global and domestic equity markets took a breather, following five months of a sustained rally which prompted the Nifty to decisively cross the 20K mark in September. Even as the market consolidated below the 20K level in September, October witnessed some correction, owing to the geo-political crisis triggered by Hamas' surprise attack on Israel.

Following the attack, Israel committed to aggressively pursue Hamas, and is now focusing its considerable military strength on Gaza and Palestine, the strongholds of the militant group. The resultant collateral damage includes the loss of both lives and livelihoods and this crisis, in tandem with the ongoing tussle between Russia and Ukraine has spooked equity investors across the globe. India was no exception, with the Nifty witnessing a market correction taking it below 19K[1].

Furthermore, the second quarter results have been a mixed bag and that has also contributed to the correction that we witnessed last month. The results from the IT sector continue to disappoint. For instance, Tech Mahindra reported its largest fall in profit since 2007, TCS, Infosys and HCL Tech have also reported revenues which were below expectations[2]. In October, the tech-heavy Nasdaq Composite index also went below its 200-day moving average, given the below average results reported by global tech majors. In line with the fall in revenue, many domestic IT companies have announced a complete hiring freeze during the year and we expect these players to continue facing headwinds in the near future.

In addition, the domestic banking sector has also reported average results, with banks facing pressure on NIMs because of the lag effect of interest rates on deposits and moderate growth in loans and advances.

The impending meeting of the US Federal Reserve (which concluded on November 1) also was a contributory factor to the cautious stance of the markets. At the meeting, the committee decided to maintain status quo on interest rates, leaving them in the 5.25-5.50% range while stating that it is going to watch closely the economic and inflationary trends. The US economy continues to grow strongly despite historically high interest rates. In the third quarter, the US GDP grew at 4.9%, which was far beyond expectations, thus indicating an overheated economy which may mean that interest rates can continue 'higher for longer' as long as inflation doesn't subside and stays there for reasonably long period.

The next few months are going to be interesting as we are in the peak of the festive season that is generally good for most companies in the consumption space. Five states are going to go for elections in November, and the outcomes may offer a glimpse of how voters are thinking about various political parties. With general elections just 6 months away, these state elections assume a lot of significance.

While the last six months saw an extremely broad-based rally in the equity markets, going forward we may see a lot of consolidation in the markets. If the volatility in the market climbs further, the quality stocks may sustain the present valuations, but the larger mass of poor-quality businesses may revert to their means.

We are advising clients to book profits from any direct equity position that is not high quality and deploy those funds into better quality investments.

Source-1: https://www.businesstoday.in/markets/top-story/story/nifty-settles-below-19k-sensex-falls-284-points-adani-enterprises-down-3-blue-star-up-8-404147-2023-11-01
2:https://economictimes.indiatimes.com/markets/stocks/live-blog/tech-mahindra-q2-results-today-live-updates-tech-mahindra-q2-earnings-latest-news-25-october-2023/liveblog/104693204.cms

Ladderup WEALTH MANAGEMENT

Proud Portfolio

A unique approach to build a 'high quality high growth' portfolio of stocks that can deliver sustainable growth.

In October, both global and domestic equity markets experienced a period of collapse due to the geopolitical crisis initiated by a surprise attack by Hamas on Israel. Concurrently, US yields reached 5% for the first time in 16 years, resulting in a significant shift of capital away from equities. This created favorable opportunities for investors to enter the market. Looking ahead, the markets are closely monitoring the upcoming festive season, anticipating a surge in demand. **The Portfolio Management Service (PMS) is capitalizing on this market correction and proceeding with a prudent allocation of funds.**

Stocks in the news

1 IT companies with another quarter of disappointment.

Revenue growth stays affected by continued slowdown across key verticals (BFSI/Retail) and geographies (US/Europe). The weakness in revenue growth was majorly led by the continued slowdown in discretionary spending and clients reprioritizing cost optimization projects whereas EBITDA margins improved on a Q-o-Q basis led by cost efficiency measures and hiring slowdown. Deal pipeline continues to be healthy as order wins remain strong in 2QFY24. While TCS gave no guidance on revenue growth, Infosys & HCL Tech both cut FY24 $ revenue growth guidance: 1%-2.5% yoy (from 1%-3.5%) & 5%-6% y-o-y (from 6%-8%), respectively. Wipro also followed suit and has downgraded its guidance to -3.5% to -1.5% (from -2% to 1%).

2 Indian Hotels continue with their impressive performance.

Indian Hotels reported another impressive quarter with the best Q2 results. Its net profit grew 37% YoY to ₹167 crores in Q2, consolidated revenue grew by 18% YoY aided by strong growth in average room revenue (ARR) and better occupancies which increased by 400bps. The management expect FY25 to sustain growth on the back of a strong demand outlook, coupled with more structural events. Taj currently has a 51% share of operational luxury hotel inventory in India which is further poised to grow considering the pipeline of the hospitality major.

3 ICICI Bank quarter 2 updates.

ICICI Bank's net interest income (NII) increased by **23.8% YoY** to ₹18,308 crore in the July-September quarter. It reported a 35.8% rise in its net profit. The bank's **net interest margin stood at 4.53%** in Q2FY24, a fall of 25bps. the NIMs will be under pressure for a few quarters before stabilizing. The asset quality for the lender improved as gross non-performing asset ratio improved by 28 basis points quarter-on-quarter to 2.48% while Net NPA ratio also improved by 5 bps sequentially to 0.43%. The bank's advances and deposits also increased by 18.3% and 19% respectively YoY.

Market update

FII inflows:

After six consecutive months of foreign portfolio investment (FPI) inflows, there was a shift in September as FPIs turned into net sellers. This trend continued in October 2023, with foreign institutional investors (FIIs) selling Indian equities amounting to ₹24,548 crores. The increase in outflows can be attributed to the US 10-year yield reaching 5%, which prompted investors to withdraw funds. Additionally, escalating tensions in the Middle East, particularly following Hamas' attack on Israel, further intensified the selling pressure on Indian markets. This resulted in FIIs reallocating their investments from emerging markets to safer assets such as US Treasuries and gold. The impact of these outflows was most prominent on large-cap and high-quality mid-cap stocks, leading to index declines ranging from -2.7% to -3.8% during the month.

Indian economy receives a dual boost:

The CPI inflation eased to a three-month low along with the factory output (IIP) surging into double digit growth territory, scaling to a 14-month high, indicating an upswing in economic momentum. CPI came down to 5.02% due to corrections in food inflation. Considering the CPI number is still above 4%, which is the target set by the RBI, we can expect to see interest rates staying at these high levels. August factory activity (IIP) registered a robust growth at 10.3% compared to 6% in July, aided by a favorable base effect. Manufacturing sector growth was at 9.3%, while mining & electricity registered a higher y-o-y growth of 12% & 16% respectively.

Proud Portfolio Performance vs benchmark for October'23

Particulars	Proud Portfolio	NIFTY 50 TRI	Outperformance
1M	-4.50%	-2.70%	-1.80%
3M	-2.20%	-3.10%	0.90%
6M	8.60%	6.50%	2.00%
1Y	7.40%	7.00%	0.40%
2Y	7.60%	5.10%	2.40%
Since inception	22.30%	19.00%	3.40%

Source-1-Stocks in the news-Company websites
2-FII inflows-CDSL
3-Indian economy receives a dual boost-The Economic Times

Fund Snapshot - Nippon India Large Cap Fund

Historical performance

Particular	FY 19	FY 20	FY21	FY 22	FY 23	FY 24 YTD
Nippon India Large Cap Fund	14.28	-31.83	67.68	25.07	6.53	21.89%
S&P BSE 100 - TRI	13.90	-25.56	73.48	20.66	0.73	15.40%
Average	9.49	-21.86	62.83	17.60	-0.32	16.05%

Performance Snapshot Sep 30 2022 to Sep 30 2023

Particular	Return
Nippon India Large Cap Fund	27.36%
Benchmark	13.26%
Outperformance	14.10%
Large Cap Category average	16.05%

Top 3 sectors performance wise

Sector	Weight	Sector Return	Contribution to fund return
Financials	36.2%	18.3%	6.9%
Consumer Discretionary	13.7%	43.2%	5.7%
Industrials	10.4%	63.7%	5.7%

Top stocks as per performance

Company	Weight	Return	Contribution to fund return
Larsen & Toubro Ltd	5.7%	65.5%	3.0%
ITC LTD	4.8%	38.7%	1.9%
Housing Development Finance	5.3%	21.0%	1.5%
Axis Bank Ltd	3.8%	41.5%	1.4%
Chalet Hotels Ltd	2.5%	57.8%	1.3%
Total	22.1%		9.1%

Top stocks as per allocation

Company	Weight
Reliance Industries Ltd	6.8%
Hdfc Bank Limited	6.1%
Icici Bank Ltd	5.9%
Larsen & Toubro Ltd	5.7%
Housing Development Finance	5.3%
Total	29.8%

Summary

- The fund is managed by Mr. Sailesh Raj Bhan(Since Aug 2007) & Ashutosh Bhargava (Since Sep 2021), Both have more than 20 years of experience.
- The fund performed significantly well compared to the benchmark with an absolute return of 27.36% and an outperformance of over 14.10%.
- The returns can be majorly attributed to the stock selection of the fund manager.
- The top 3 performing stocks for the fund were Ge T&D India(254%), Linde India(80%), Bank of baroda(66%) indicating the superior stock picking ability of the fund.
- The top 3 sectors of the fund were financials, consumer discretionary, and industrials.
- Within Financials the fund was significantly overweight in Axis Bank, ICICI Bank and State bank of India which turned right as these stocks generated handsome returns for the fund.
- The fund strategically allocated investments to hospitality stocks that were not included in the benchmark index. This strategic maneuver led to the generation of additional returns, with a particular focus on Chalet Hotels and Indian Hotels.

Source- Bloomberg, ACE, Ladderup internal team