# Newsletter - January 2024

## 2024 – A year of continued optimism

The year gone by has been extremely interesting as well as rewarding. **Equity Markets had a dream run in 2023, with the Nifty clocking gains of almost 20% and the small cap segment reaching stratospheric levels with gains of 48%. This outperformance was aided by the resumption of foreign flows, which was the highest among peers.** The net flows for calendar year 2023 stood at nearly $20 billion while the rest of the emerging markets have seen nominal flows. Further, the macro-economy also did quite well; beating most expectations, **with Indian GDP crossing USD 3 trillion on a nominal basis** and registering a growth of almost 6% during the year, in real terms. After a dismal 2022, where we saw consistent outflows of foreign capital, 2023 witnessed resurgence in foreign capital flows to Indian Equity Markets. Almost all segments of the markets did well during 2023, on the back of strengthening corporate fundamentals, robust demand, strong government finances, and positive outcomes of key policy initiatives.

**Raghvendra Nath**
**Co-founder, Managing Director**

On the global front, while Equities shone, the geopolitical environment continued to cast uncertainty. The Ukraine-Russia conflict has continued unabated and there is no sign of thawing. The fresh conflict between Israel-Hamas has also caused a great deal of concern due to heavy civilian casualties. The deep slowdown in China has surprised most economists. The Chinese property market has suffered serious damage, exports are down, domestic demand is tepid, and the overleveraged economy doesn't have any quick fixes, at least for the time being. Europe, on the other hand, continued to struggle with a sharp deceleration in credit growth, higher bankruptcy filings and the consistent bias of central banks towards policy tightening.

Most central banks in the developed world have kept interest rates elevated with the objective of taming inflation. The high interest rates have started showing signs of impact, with slowdown expectations in the coming year. The signals from the Federal Reserve in US indicate that, sometime during the year, the Fed should pivot and start reducing interest rates.The Federal reserve is expecting a soft landing and intends to reduce its policy rate by at least 75 bps next year to support the ongoing expanding economy. However, there is a good chance that the reduction will be slower than expected, and therefore, the slowdown can be sharper than anticipated.

Both India and the US are heading for general elections during the year. There is a high probability about the continuance of the present dispensation in India, and that is one of the reasons for the market cheer. The US election is another matter. On one hand, Joe Biden may go for a re-election despite extremely weak approval ratings, while, on the other, Donald Trump may become the Republican candidate despite his legal woes. It is going to be a tough call.

Despite these tumults, the Indian Equity markets have undeniably undergone a remarkable rally, marking one of the most impressive performances in several decades. The Indian economy has endured the impact of rapid monetary policy tightening better than major economies. In contrast to the troubles impacting other nations, the Indian economy has navigated these challenges with remarkable resilience.

A standout feature of this robust performance is the sustained elevation of domestic GDP growth, consistently surpassing established trends and outpacing global peers. What sets the Indian equity rally apart is its inclusivity, with almost all sectors and segments actively participating in the upswing. This broad-based surge indicates a fundamental strength across various aspects of the economy. The underpinning fundamentals remain robust, painting a hopeful picture for the continuation of market momentum well into 2024.

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**So, what does 2024 hold for the capital markets?**

- Most economists are certain of a slowdown in global growth to 2.4%-2.7% p.a. owing to elevated interest rates and geopolitical instability.
- We expect Europe to face the heat of increased economic uncertainty, given the diminishing ability of the governments to support economic growth with credit-financed stimulus packages, owing to significant public debt. The only solace for Europe would be an improved supply chain scenario and an easing energy crisis due to falling energy and commodity prices, which may prompt the central bank to consider an early rate cut.
- The US is expected to slow down in 2024, against better-than-expected growth in 2023. The high interest rates are going to have an impact on real estate demand, consumption, as well as corporate credit offtake. While the majority feels that the United States shall escape a recession, a few believe that the slowdown could be quite sharp, thereby bordering on recession. The next few quarters shall tell us which section is right.
- Most people also agree that the Federal Reserve in the US shall start reducing interest rates and can cut 75 bps to 100 bps. But it shall be another couple of years before interest rates go back to the 2% levels that persisted before Covid.
- While the Equity rally in the US has been fueled by developments in the world of Artificial Intelligence, most of it is hope rather than reality (as it has happened in the past with the dotcom era exuberance). We may see some moderation in expectations in the coming year.
- Closer home, a BJP win is already factored into the equity market valuations and therefore, a negative result could be an ugly surprise.
- The accelerated pace of reforms in India across a broad spectrum, including fiscal, digital, physical infrastructure and social inclusion, has enhanced the global competitiveness of the country and the ease of doing business. This is vastly evidenced by the increasing stature of India as a manufacturing hub, with India playing on the front foot to latch on to the China+1 and Europe+1 themes.
- Inflation is estimated at 5.4% in FY24 but expected to moderate to 4.7% in FY25. Due to poor Rabi sowing, near term food inflation risk persists in H1CY24. However, the moderate oil prices are keeping inflation in check, and we hope this does not increase sharply.
- Many themes such as semiconductors, electric vehicles, new energy-related products like solar panels, advanced chemical cell batteries, green hydrogen, electrolyzers and drones are still in nascency and offer good headroom for growth in India.
- The consumption demand in India continues to be robust and broad based with a pivot towards premiumization and discretionary spending, led by the ongoing demographic shifts as well as the improving income levels of the middle class.
- RBI is expected to continue its stance of "withdrawal of accommodation" till FY24 and change stance in H2CY24, with estimated rate cuts of in the range of 50 bps likely to occur in CY 2024.
- The growth projection for 2024 continues to be quite strong at 6.8% in FY24, thereafter moderating to 6.3% in FY25.
- Interest rate cuts in India are also on the horizon and there is a high probability that the RBI shall follow the footsteps of US Fed.

Despite strong growth projections, equity valuations seem to be slightly stretched, suggesting that market movements in 2024 shall be more stock-specific rather than broad based.

Looking back at the previous year, the stock market displayed a relatively steady trend with minimal fluctuations. Despite a few geopolitical events, a consistently positive sentiment among investors prevailed in 2023. Now, entering into 2024, we are confronted with a mix of both favorable and unfavorable events. Given that many positive aspects are already factored into the markets, adopting a balanced approach to investing becomes a key strategy for success in 2024. Rather than opting for an aggressive stance, a judicious and balanced investment approach would provide stability amidst the uncertainties that may unfold in the coming year.

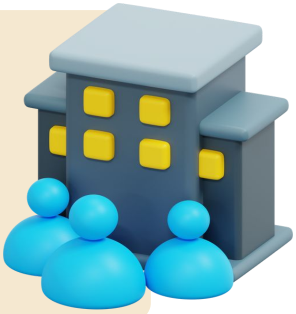
# Proud Portfolio

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

*The sectors that underperformed on the earnings front for the past several years, such as Automobiles, Real Estate, Capital Goods, Infrastructure, Industrials, Utilities, Hotels, and PSUs have made a strong comeback. The pick-up in government capex and the growth in order books provided a fresh boost to the sectors such as Railways, Defence, Capital Goods and Utilities. The year witnessed broad-based growth with all indices and sectors delivering positive returns.* ***The PMS seized this opportunity to secure gains and shifted to areas where the value difference still persisted.***

## Stocks in the news

### ITC ventures into the emerging vectors of growth



ITC is set to expand its cloud kitchen business in Bengaluru, featuring three brands specializing in comfort food, North Indian gourmet cuisines, and bakery products. With 19 kitchens in Bengaluru and 4 in Chennai, these operations have already achieved profitability. The model includes a central kitchen and satellite kitchens, strategically located every 2.5-3 km for efficient delivery through platforms like Swiggy and Zomato. The strategy is to add new cuisines and meals apart from expansion into the metros. The average order value for the ITC cloud kitchens is Rs 900, twice of the industry. The main differences between these and the kitchen of ITC Hotels is that this business involves 5% goods and services tax (GST) while it is 18% GST for hotel restaurants, and this is quick service. ITC has already delivered over one million orders

### ARCIL to buy affordable home loan portfolio from Bandhan Bank, other banks line up for sale


Bandhan Bank is selling its Rs 775 crore affordable home loan portfolio to Avenue Capital-backed Asset Reconstruction Company India (ARCIL) for ₹280 crore in an all-cash deal. The transaction highlights the stress in lower-income groups, where customers are unable to pay ₹10-12 lakh loans taken to buy their homes. Three other private lenders, RBL Bank, IndusInd Bank and Yes Bank, too are seeking buyers for their retail and micro, small and medium enterprises (MSME) portfolios, totalling in excess of ₹2,900 crore.
In the case of Bandhan Bank, the portfolio on sale is part of ₹16,663 crore loan book it acquired from Gruh Finance. In 2019, Bandhan Bank acquired Gruh Finance from HDFC.

## Market update

**FII inflows:**
Strong earnings, economic growth, and optimism about Fed concluding its rate-hike cycle have driven foreign portfolio investors (FPIs) to record levels of gross buying in Indian equities. In 2023, FPIs purchased a historic Rs 25.5 trillion in shares, the highest for a calendar year, while selling Rs 23.9 trillion. On a net basis, they were net buyers at Rs 1.6 trillion, the most since 2020. This shift comes after being net sellers of Rs 1.25 trillion in 2022 and the first two months of 2023. FPIs became net buyers in March as the easing of the US banking crisis and improvements in China's economic situation boosted sentiments. However, FPI selling resumed in September, initially to book profit and later intensified due to concerns about rising US bond yields and uncertainties regarding the rate hike trajectory. Going forward, global cues on inflation and interest rates will influence the flow of foreign funds into Indian equities.

**DII Flow:**
In 2023, domestic institutional investors (DIIs) have netted about Rs 1.81 trillion in stocks, surpassing the Rs 1.6 trillion invested by foreign portfolio investors. The consistent DII inflow originates from three primary sources. Firstly, domestic mutual funds receive over Rs 15,000 crore monthly through systematic investment plans (SIPs), emerging as the top equity exposure choice for retail investors. The Indian mutual fund industry has witnessed a 125% surge in net inflows and a 24% growth in assets under management (AUM) this year. Secondly, insurance companies contribute significantly to DII flows, benefiting from increased awareness and insurance penetration, resulting in a regular influx of funds in the form of premiums invested in equities. Thirdly, provident funds are now permitted to allocate a portion of their corpus to stocks.

***Proud Portfolio Performance vs benchmark for December 23***

| Particulars | Proud Portfolio | NIFTY 50 TRI | Outperformance |
|---|---|---|---|
| Since inception | 25.2% | 22.8% | 2.3% |
| 3Y | 16.4% | 17.2% | -0.8% |
| 2Y | 17.0% | 13.2% | 3.7% |
| 1Y | 22.4% | 21.3% | 1.1% |
| 6M | 11.2% | 13.8% | -2.6% |
| 3M | 5.9% | 10.9% | -4.9% |
| 1M | 3.7% | 7.9% | -4.2% |

Source-1: ITC to scale up cloud kitchen business, enter more cities - The Economic Times (indiatimes.com)
2: bandhan bank arcil deal: Bandhan bank to sell Rs 775 cr home loans to Arcil - The Economic Times (indiatimes.com)
3:2023 in Review: FPI inflows recorded at ₹1.65 lakh crore, highest since 2020; will the trend continue? | Mint (livemint.com)

Ladderup WEALTH MANAGEMENT

# Fund Snapshot - DSP Top 100

## Historical performance

| Particular | FY 19 | FY 20 | FY21 | FY 22 | FY 23 | FY 24 YTD |
|---|---|---|---|---|---|---|
| DSP Top 100 | 6.50 | -25.05 | 63.70 | 10.31 | 2.29 | 23.61 |
| S&P BSE-TRI | 13.90 | -25.56 | 73.48 | 20.66 | 0.73 | 19.10 |
| Average | 9.49 | –21.86 | 62.83 | 17.60 | -0.32 | 19.96 |

## Performance Snapshot: CY 2023

| Particular | Return |
|---|---|
| DSP Top 100 | 27.5 |
| Benchmark | 20.4 |
| **Outperformance** | **7.2** |
| Large cap category average | 23.12 |

## Top 3 sectors performance wise CY23

| Sector | Weight | Sector Return | Contribution to fund return |
|---|---|---|---|
| Healthcare | 13.27% | 42.20% | 3.72% |
| Consumer Discretionary | 12.72% | 31.35% | 3.53% |
| Financials | 5.41% | 6.00% | 1.92% |

## Top stocks as per performance CY23

| Company | Weight | Return | Contribution to fund return |
|---|---|---|---|
| Tata motors ltd | 3.0% | 101.3% | 2.4% |
| ITC ltd | 4.6% | 46.6% | 2.0% |
| Ipca Laboratories ltd | 3.1% | 31.9% | 1.6% |
| HCL technologies ltd | 3.7% | 48.9% | 1.6% |
| Mahindra & mahindra ltd | 3.8% | 37.8% | 1.4% |
| Total | **18.3%** | | 9.0% |

## Top stocks as per allocation CY23

| Company | Weight |
|---|---|
| ICICI bank ltd | 9.5% |
| AXIS bank ltd | 7.5% |
| HDFC bank limited | 6.9% |
| ITC ltd | 4.6% |
| SBI life insurance Co ltd | 4.2% |
| Total | 32.8% |

## Summary

- The fund is managed by Mr. Abhishek Singh, who has over 16 years of experience and has previously worked with Edelweiss and Kotak Mahindra group. He started managing this fund since June 2022 along with DSP Equity savings fund.
- The fund performed significantly well compared to the benchmark with an absolute return of 27.5% and an outperformance of over 7.2%, with returns majorly attributed to the stock selection skills of the manager
- The fund manager is comfortable taking position in stocks which are currently priced in with conservative estimates of future growth so as to provide a margin of safety and benefit from unexpected positive developments in the future and also protecting the downside risk
- The top 3 performing stocks for the fund were Tata motors (101%), ITC ltd (46.6%) & Ipca Lab (31.9%) indicating the superior stock picking ability of the fund.
- The fund currently has significant exposure to leading private sector banks (HDFC, ICICI & Axis) which are attractively priced and expected to generate decent returns
- The fund had strategically invested into healthcare and auto segment which led to superior performance driven by the likes of Tata Motors, Hero Motocorp, Alcem Lab and Ipca Lab.

Source- Bloomberg, ACE, Ladderup internal team