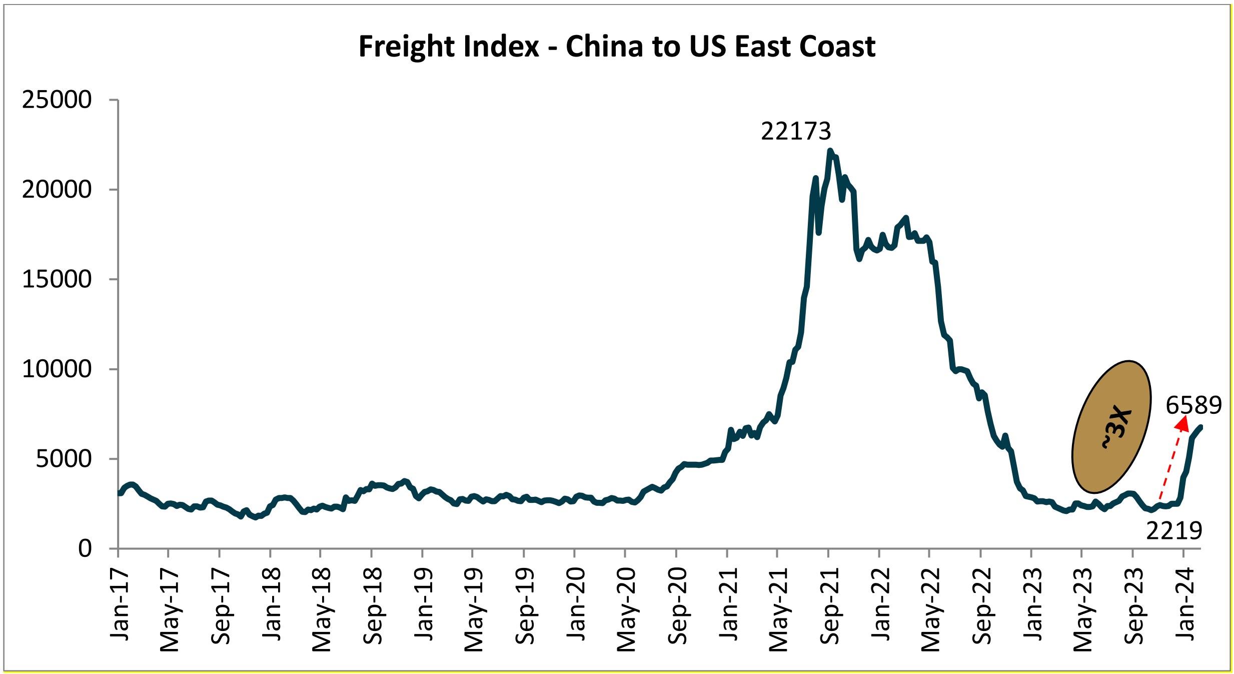
Dear Investors,

Markets continued their ying-yang focusing on short term inflationary pressure and its potential impact on central bank policies. Despite the prospects of FED rate cuts, the overall market sentiment was overshadowed by concerns, fueled by unsettling inflation data from the US. The ECB's cautious approach towards policy easing, in anticipation of possible inflation rebounds, alongside the UK's economic downturn, underscored the multifaceted challenges confronting the markets during the month. In Asia, Japan's slide into a technical recession and China's battle with deflationary trends further highlighted the contrasting economic conditions impacting global equity markets. Amidst this backdrop, MSCI World was up 4.3% in February. MSCI EM outperform, rising 4.8%, led by gains in China (+9.1%), Hong Kong (+6.5%). India despite being up 1.5% in USD terms till date in February, relatively underperformed most of its EM peers.
In the short term, Red sea crisis has further impacted global trade and also performance of some corporates depended on exports. Logistic costs have inched up by 200% from the recent lows and can have some inflationary led impact in the short term.



Source: Bloomberg, ASK IM Research

Let us now dwell into the performance of India Inc the quarter gone by. By and large performance has been in line. Following are the key takeaways:

- EBITDA is now converging with top line, but PAT is still holding up: The BSE500's top line remained subdued at 6% YoY (similar to H1FY24). But EBITDA growth, which was strong in H1FY24 at 29%, has dwindled to 10%. This is mainly due to fading input price tailwinds and operating de-leverage. PAT growth, however, has held up.

- Domestic consumption: The performance has been a mixed bag. Demand has been strong in SUVs, 2 wheelers, jewellery, hotels, aviation, consumer durables. Staples demand has stabilized now at lower levels. We believe rural demand should start to improve as the negative impact of high inflation start to recede.

BSE 500	Sales Growth	OP Growth	PBT Growth	PAT Growth
Q3FY24 – YoY	5.3%	14.6%	21.0%	24.6%
Q2FY24 – YoY	2.2%	29.8%	40.1%	40.6%
Q1FY24 – YoY	4.6%	29.0%	39.6%	49.5%

(Q3FY24 – YoY)	Sales Growth	OP Growth	PAT Growth
CONSUMPTION	8.7%	15.9%	20.0%
Staples	-0.3%	2.8%	10.0%
Retail	22.5%	22.6%	19.3%
Discretionary Impersonal	5.8%	30.1%	38.7%
Textiles	2.7%	24.2%	86.7%
Building Products	0.8%	25.4%	32.2%
Footwear	3.0%	-8.8%	-19.9%
Consumer Durables	14.3%	14.5%	4.6%
Entertainment	8.7%	2.6%	2.7%
Airlines	29.4%	65.8%	106.2%
Beverages	17.0%	77.8%	21.3%
QSR	6.0%	1.2%	-62.7%

- Domestic investment: Real Estate companies, companies beneficiary on government capex reported strong performances. Cement companies' profitability has improved too. Meanwhile, we await improvement in companies that are dependent on industrial capex (like abrasives, bearings, material handling)

(Q3FY24 – YoY)	Sales Growth	OP Growth	PAT Growth
INFRASTRUCTURE AND ENGINEERING	11.0%	24.2%	15.5%
Capital Goods	12.4%	12.8%	14.5%
Cement	9.2%	56.8%	33.6%
Logistics	5.9%	-6.2%	-5.6%
Consumables	-6.2%	-11.7%	-29.8%
Manufacturing	18.3%	36.6%	54.6%
Defence	12.6%	45.6%	35.3%
Real Estate	2.3%	2.6%	-0.1%
Construction	17.3%	10.5%	19.0%

- Global exporters: Pharma companies posted a strong quarter with improvement in US generic pharma cycle, IT companies reported in line results, while chemicals suffered a deep contraction in both top line and profits. Going ahead, ending global destocking should put a floor to exporters' earnings which are impacted by destocking cycle.
- Financials: Banks NIM's expectedly moderated and opex stayed elevated, while credit growth is sustaining. Challenges on deposit front can continue to have an impact on NIMs.

Overall, performance of India Inc has been largely in line with estimates. Earnings outlook remain all right despite headwinds of global growth and moderate rural demand. Election led slowdown may impact earnings in the short term though. Markets have reacted positively to the sharp earnings growth. However, going forward, as margins led tailwinds are receding, earnings will have to driven by improvement in revenue growth. We believe a sustained higher and secular growth will differentiate.

Happy investing!

Mr. Sumit Jain

Deputy CIO, ASK Investment Managers Ltd

ASK Investment Managers

Investment Approach Update

Global markets turned volatile in the month of February driven by escalating geopolitical tensions in Middle East (especially on the Red Sea trade route), continued strong GDP growth for US (which expanded at 3.2% annualized rate in Q4 CY23 and at 2.5% yoy growth in CY23) and positive surprise in earnings from the US technology giants, riding on the AI driven growth acceleration. Inflation on the other hand continued to inch lower across the developed world translating to a pause in policy rate.
On the domestic news flow front, the RBI in its monetary policy committee (MPC) meeting decided to keep the headline repo rates unchanged at 6.5% as the Central Bank remains focused on getting inflation sustainably under control. The RBI expects the Indian GDP to grow at 7.3%yoy in FY24 followed by 7%yoy growth in FY25.

Overall Q3FY24 earnings were broadly in line with expectations. Revenue growth for Q3FY24 for the portfolio stood at 21% yoy and profits grew 17% yoy.

Key gainers during the month in the portfolio were Havells, Astral, Sona Comstar, while AU Small Finance Bank, Page, Cholamandalama Investment underperformed.

On the portfolio action front, we have trimmed weight in Asian Paints, AU Small Finance Bank, Bajaj Finance, Havells, Page Industries, Titan and Avenue Supermart. This liquidity was used to purchase Polycab, Sun Pharmaceuticals. We further increased weight in TVS Motors and JSW Infrastructure.

- Polycab is the market leader in India with 12-13% market share (18-20% organized share) in Cables & Wires and continues to outperform industry (last 5 years revenue CAGR at 15%). We believe Polycab's momentum in Cable & Wires would be sustainable over next 5 years aided by government push towards infra spends (electrification, power transmission projects and renewal energy initiatives) and expected sequential recovery in real estate. Deep manufacturing capabilities, strong brand, distribution, balance sheet make it a ideal play to benefit from the investment activity in the country.
- Sun Pharma is a very strong play in the domestic pharma market along with the highly anticipated success in the global (especially US) specialty (Patented product) pharma market. Improvement in US generic market, ramp up in specialty portfolio along with margin improvement, strong global franchise make it a strong pharma play. Resolution of its facility can add further to the already improving business.

Over the medium to long term, we believe that various regulatory/fiscal initiatives taken in the past few years coupled with transition in the manufacturing sector (favorable policy environment coupled with opportunities from shift in global supply chain) will translate into structurally sustainable superior growth in the country and for profit growth of India Inc.