MOSt Advisor

MOTILAL OSWAL

Monthly Market Newsletter

August 2024

Thought for the month

"Investing, like economics, is more art than science. And that means it can get a little messy."

Howard S. Marks

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Market Setup

- Market Outlook
- Equity Investment Ideas
- Technical & Derivatives Outlook
- Commodities Market Outlook
- Advisory Products

Benchmark Indices

Index	July 24	MoM(%)	YoY(%)
Sensex	81,741	3.4%	22.9%
Nifty	24,951	3.9%	26.3%

Economic Pulse

Key Indicators	Curr. Month	Prev. Month
IIP	5.90%	5.00%
CPI	5.08%	4.75%

Key Highlights

- Nifty crosses 25k – creates a new milestone
- Budget focused on long term growth; increases capital gains Tax
- Key Monitorables: Interest rates, quarterly results, global volatility

Siddhartha Khemka

Sr. Group Vice President - Head Retail Research

Equity markets continued its strong up move for 2nd consecutive month with Nifty making a new high of 25k, before ending the month with gains of +3.9% at 24,951 in July'24. Broader markets outperformed with Nifty Midcap 100 gaining +5.8% while Smallcap 100 was up +4.5%.

FIIs turned buyers for the second consecutive month of Rs5407 crore while DIIs inflows remained healthy at Rs23,486 crore in Jul'24.

The corporate earnings scorecard for 1QFY25 has been in line so far. growth has primarily been led by the BFSI and Automobile sectors. Earnings of the 39 Nifty companies that have declared results so far grew 5% YoY (vs. est. of +2% YoY).

The Union Budget presented on 23rd Jul'24 focused on inclusive growth along with fiscal prudence. It highlighted the roadmap of the Government's agenda for India's economic development vison 'Viksit Bharat 2047'.

Global factors are inducing volatility into equity markets across the world. Recessionary fears in the US, liquidity concerns over unwinding of Yen carry trades, and escalating tensions in the Middle East have led to profit booking in Indian markets as well.

India stands strong with the support of Healthy macros, strong participation from domestic retail and institutional investors, and inline Q1FY25 numbers so far. The combination of ~7% GDP growth and ~15% Nifty earnings CAGR in FY24-26, stable currency, moderating inflation, and buoyant retail participation may keep sentiments strong. Further, the Valuation for Nifty is comfortable near its 10-year average at 21x one-year forward P/E. hence we believe that any correction in Indian equities should be an opportunity for long-term investors to accumulate good quality stocks.

From a sectoral perspective, we are positive on Consumption, Discretionary, Healthcare, Telecom, Industrials, Electronic manufacturing and capital market stocks.

Private Client Group

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Equity Investment Ideas

Sun Pharma

CMP: 1,744

TARGET: 1,980

BUY

- Sun Pharma delivered better-than-expected 1QFY25 earnings, led by an improved segmental mix and lower RM costs. Lower-than-expected R&D spending led to margin improvement in 1Q.
- We expect the specialty and generics segments to drive overall US sales CAGR of 9.6% to reach USD2.2b over FY24-FY26.
- We expect the company to deliver a 13% over FY24-26 on the back of better volume off-take, new launches, in-licensing opportunities, improved MR productivity, and enhanced geographical reach.

Tata Consumer

CMP: 1,200

TARGET: 1,380

BUY

- Tata Consumer reported a healthy operating performance in 1QFY25 with EBIT growth of 12% YoY was led by a strong performance in the international branded beverage segment (EBIT up 52% YoY) and non-branded business (EBIT up 92% YoY).
- We expect revenue/EBITDA/PAT CAGR of 12%/18%/20% during FY24-26 given Tata Consumer's holistic strategy aimed at strengthening and accelerating its core business, exploring new opportunities, unlocking synergies, expanding its product portfolio and its capability building toward being a multi-category FMCG player.

Kaynes

CMP: 4,278

TARGET: 5,000

BUY

- Kaynes's revenue jumped 70% YoY in 1QFY25, led by strong traction in the Industrials (up 2.7x YoY; includes EV) and Automotive (up 56% YoY) verticals. The order book as of Jun'24 witnessed strong growth of 68% YoY to ~₹50.4b.
- The company expects to garner a good market share in the smart meter segment (~240m meters opportunity; INR480-600b) as two of the best global companies are customers of KAYNES.
- We estimate a CAGR of 62%/71%/78% in revenue/EBITDA/Adj. PAT over FY24-FY26, driven by a healthy order book growth trajectory and a better margin profile (increasing mix of high-value orders)

CAMS

CMP: 4,133

TARGET: 4,600

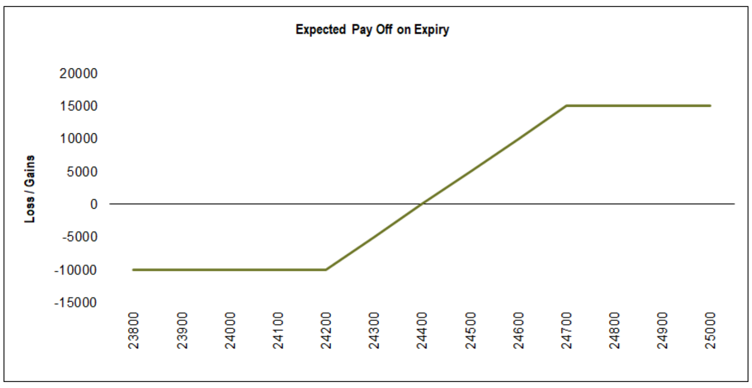
BUY

- CAMS reported strong Q1FY25 results with Revenue/Net profit up 27%/41% YoY respectively. Growth was driven by increase in the share of non-MF business and an improved mix of equity AUM in total MF AUM.
- Management expects 20%+ growth in revenues from non-MF businesses. It expects ~15-20% YoY growth in the AIF segment.
- We believe CAMs deserve a premium given the duopoly nature of the industry and high-entry barriers, relatively low risk of a market share loss, and higher customer ownership compared to AMCs.

Technical & Derivatives Outlook

- Nifty index started July on a flattish note and witnessed sustained buying interest in the entire month. The last week saw some profit taking but was followed by a quick recovery from 24000 marks and went on to touch 25000 marks. It gave the highest ever closing on monthly basis but failed to hold momentum at the start of August due to Global concerns and drifted below 24000 zones. On the sectoral front we have witnessed buying interest in most of the sectorial indices, mainly in Pharma, FMCG, Oil & Gas, IT, and Auto while some weakness in Metal sector.
- Technically, index has been making higher highs from the last eight months. Nifty has formed a strong Bullish candle on monthly scale and respecting its rising trend line, but negated the formation of higher highs on weekly scale. Even after the short term profit booking, major trend remains intact to positive so we advise to use the buy on decline stance in the market.

Derivative Strategy



NIFTY: Bull Call Ladder Spread: Aug Series
BUY 1 LOT OF 24200 CALL
SELL 1 LOT OF 24700 CALL
SELL 1 LOT OF 25200 CALL

Margin Required : Rs.60,000
Net Premium Paid : 200 Points (Rs.5000)
Risk scenario 1 : 200 Points (Rs.5000)
Risk scenario 2 : Unlimited risk above 25500 zones
Max Profit : 300 Points (Rs.7500)
Lot size : 25
Profit if it remains in between 24400 to 25500 zones

Rationale

- Nifty index has taken support near 23900 zones which is 50 DEMA on daily scale
- On weekly scale Index has negated its higher high sequence but supports are intact at lower zones which suggests buy on dips stance to continue for a pull back move
- Maximum Put OI is seen at 24000 and 23500 strike which is likely to act as a strong base while maximum Call OI is placed at 25000 and 24500 strike
- Thus suggesting Bull Call Ladder Spread to play the pull back move with buy on dips strategy

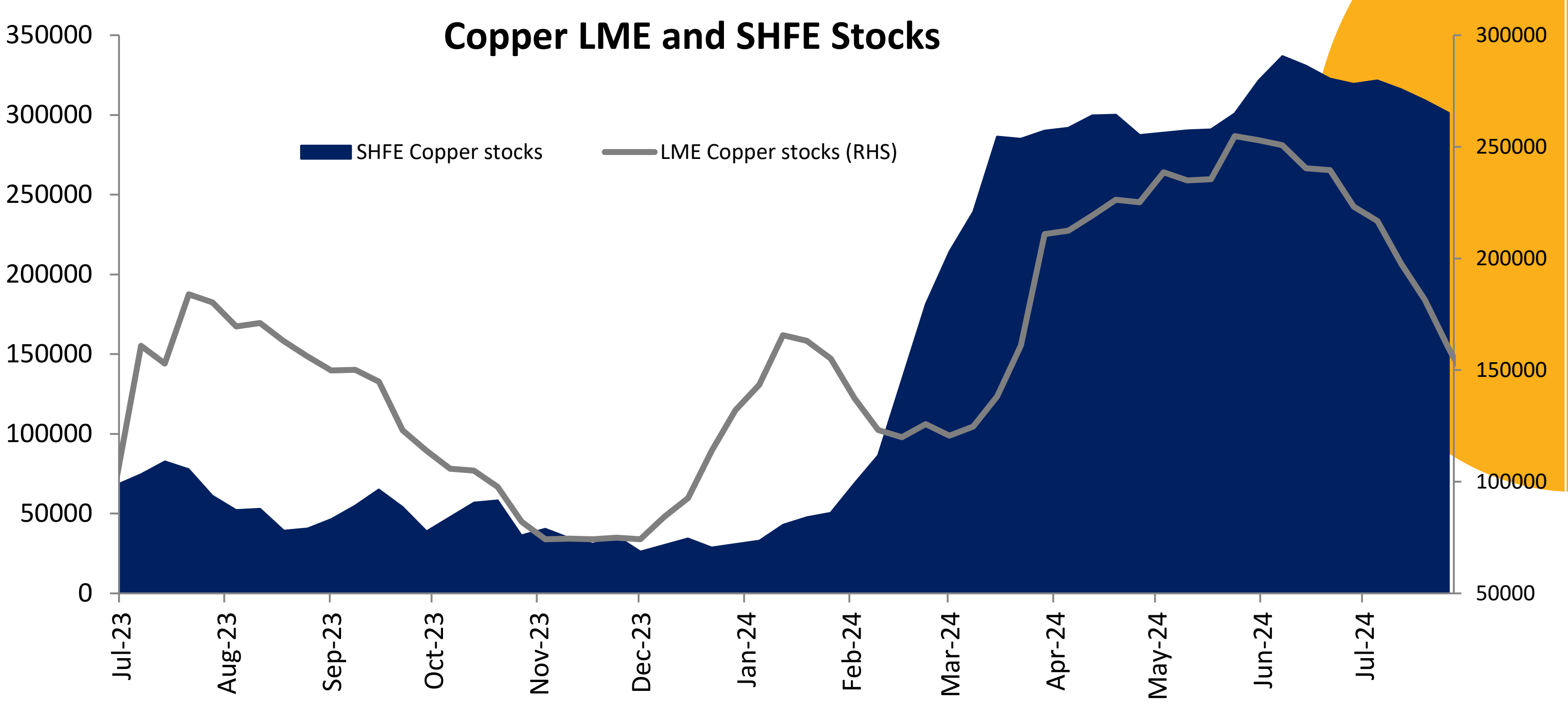
Commodities & Currency Outlook

- Copper prices have been on a downward trend for most July, falling to the lowest in over 3½ months, approaching $9,000 per ton. This decline is driven by concerns about demand from China following slower than expected economic growth in Q2 and the lack of stimulus from a major political meeting. Fed also kept their interest rate unchanged, and mentioned that if inflation inched lower then September rate cut could be on cards.

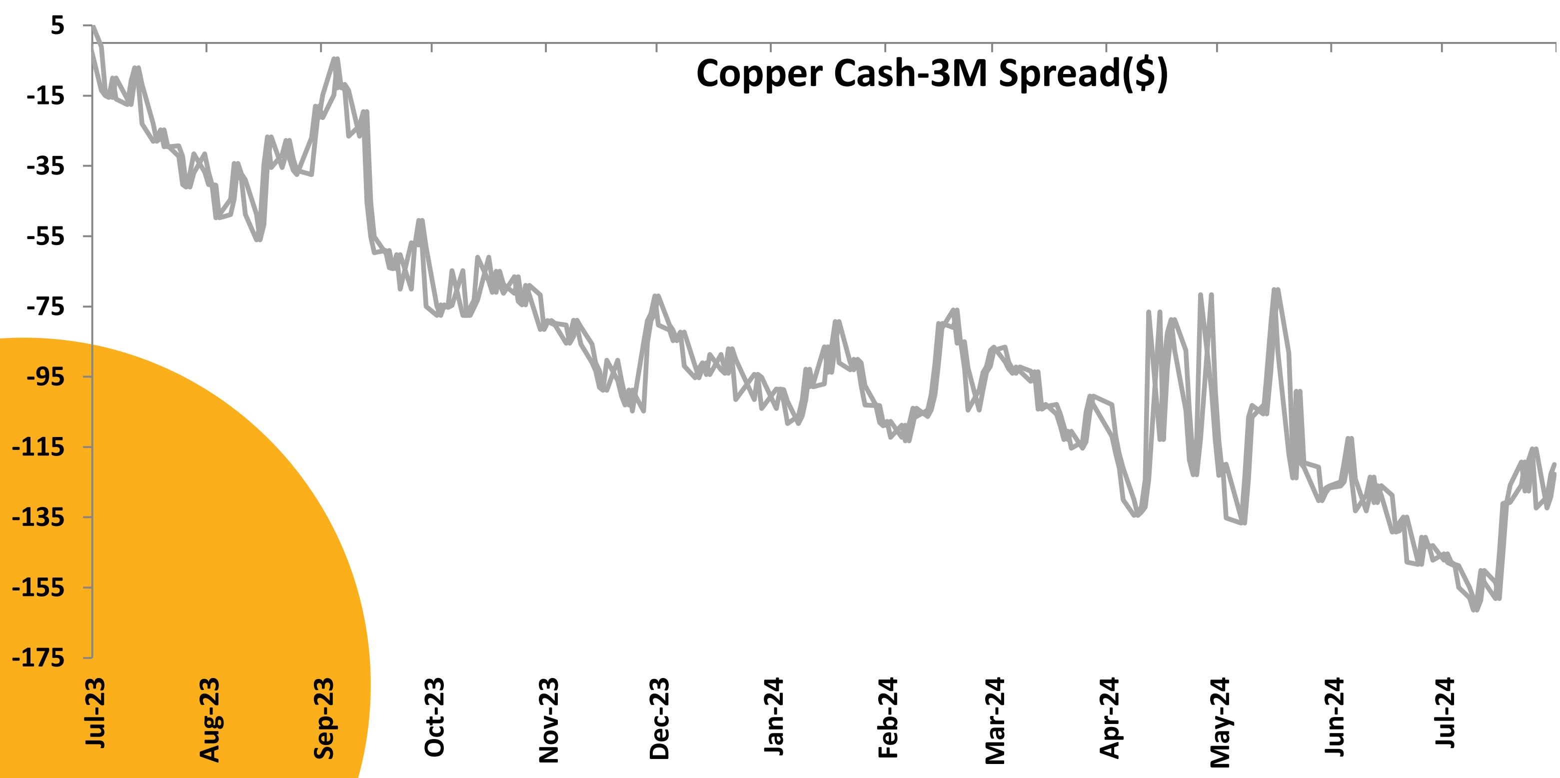
- Anticipated improvements in global manufacturing sentiment, bolstered by expected Federal Reserve rate cuts and potential inventory reductions in the latter half of 2024, could benefit metal markets. In China, the copper premium has surged to $25 per ton—the highest in over three months—indicating increased demand relative to LME prices. The global refined copper market showed a notable surplus of 65,000 metric tons in May, up from 11,000 metric tons in April. Year-to-date, the market has experienced a surplus of 416,000 metric tons, compared to 154,000 metric tons a year ago. May's refined copper output was 2.37 million metric tons, with consumption at 2.31 million metric tons.

- On the supply side, copper inventories in LME warehouses have reached their highest level since September 2021, and inventories in China's bonded warehouses have hit their highest since May 2023. In May, the global refined copper market had a surplus of 65,000 metric tons, up from 11,000 metric tons in April. China's unwrought copper imports in June fell to a 14-month low of 436,000 metric tons, a 3% decrease from the previous year, mainly due to high global prices and weak domestic demand. Despite weaker-than-expected economic growth in China and disappointing outcomes from a key leadership meeting, which suggested policy continuity rather than transformative changes, China's refined copper exports hit a record high in June.

- With prices now below $9,000, scrap merchants are less inclined to supply, and inventories are low. As scrap supply diminishes in Q3, the tightening of raw material supply could support price stability.



Source: Reuters



Source: Reuters

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