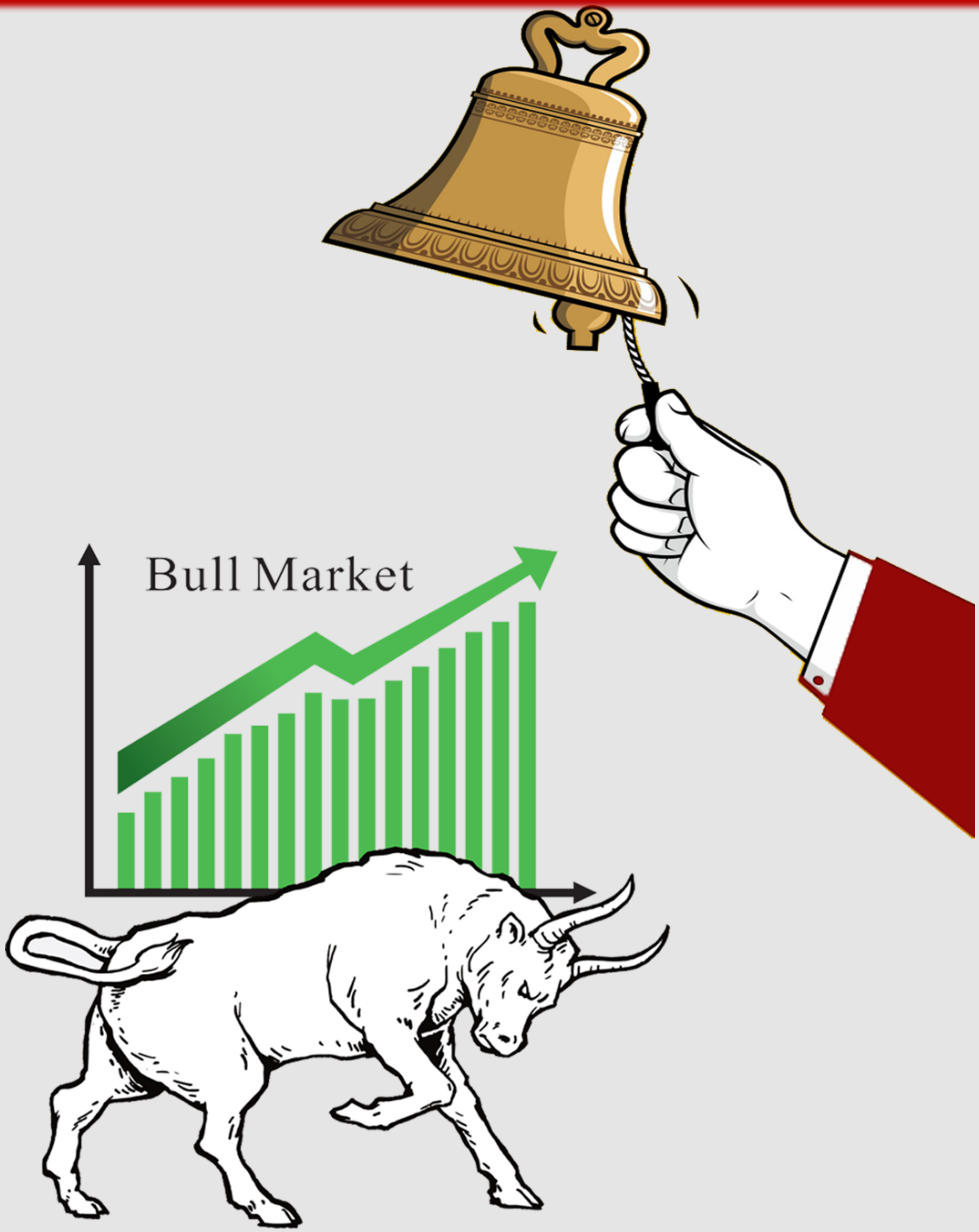
श्री LAKSHMISHREE

Gateway to your Financial Goals

The Week That's Gone Bye...

This May Impact Your Investments!!



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Why Are FMCG Stocks Wearing A Dull Look After Their Q1 Results?

If the broad market has been listless for the past month or so, then FMCG stocks have been a surprising follower. The Sensex is down by 2.1 percent in the past month while the S&P BSE FMCG index is down by 2.7 percent. Given the timing, it reflects the market's musings post-Q1 results.

One would have thought, with input costs declining and rural green shoots showing up, there would be more optimism on the Street. Of course, an unrelated upset is the market's negative reaction to ITC's hotels' demerger structure and since the stock is an index heavyweight it can influence its direction. But, even otherwise FMCG stocks are not being chased by investors.

What could explain this? FMCG investors look for triggers that can drive sales and earnings growth sustainably to justify the high valuations these stocks trade at. For example, Hindustan Unilever trades at a price to earnings multiple of 60 times its trailing 12-month earnings, while the index itself trades at 40 times. At these valuations and based on their expectations of performance, investors may be thinking there's not enough capital appreciation that can be squeezed out in the near future.

A major reason could be the cautious approach companies are taking to utilise the bump-up in gross margins, or the difference that remains after deducting raw material costs from sales. A sharp cut in the price of inputs linked to basic commodities such as crude oil, palm oil and chemicals have led to lower input costs for most major FMCG companies.

Companies are in a position where they can use these savings to drive growth and switch out from a low volume growth-high price growth situation to a higher volume growth-lower price growth situation. Apart from reducing prices they can also invest savings behind higher promotions and advertising and so on. To an extent, this has happened but a degree of caution is also visible. Price reductions or grammage increases are visible in the smaller packs or the fixed price packs. But they have been taking a calibrated approach elsewhere, such as large packs and in the premium categories.

One reason is volatile raw material prices. Recently, prices of crude oil and palm oil rose and food prices have been rising too. The effect of the monsoon on agricultural output and therefore inflation is also a factor that may be worrying companies. And, frequent product price changes are a logistical nightmare for companies and are also viewed negatively by the trade and consumers.

Companies would, therefore, prefer to be certain that inflation has indeed settled down, before cutting prices or increasing grammage. In premium categories or large packs, they may even decide to retain savings as consumers may be less price -sensitive. This could also see value-conscious customers switch to packs that offer more value even if they are of a lower weight, and that too could show up in volume growth levels.

Some may switch to cheaper brands. Smaller players have turned aggressive in passing price cuts to win back market share and it's already showing up in some categories such as tea, detergents and biscuits. This trend is likely to remain, as businesses selling these smaller brands or even unbranded products are hungry to regain lost ground. In a falling price situation, they are also able to cut prices sooner because they buy in the spot market, compared to larger players that buy forward and may have higher-priced raw material inventory.

That's why we have a situation where the margin outlook is neutral to positive, but the sales growth outlook is a bit confusing. If companies choose to be conservative about how they utilise raw material savings, then it means sales growth, particularly volume growth, may remain unimpressive. Margins will remain healthy but then that alone is not enough to satisfy FMCG investors. A worry to watch out for is if the urban story develops cracks, as that could affect the one part of their portfolio that's been consistently delivering results. On the other hand, if rural growth comes back to life then it could drive growth higher given its weight in sales.

On The Moon - Isro's Success Will Bring Long-Term Gains

The soft landing of Chandrayaan-3 mission's Vikram lander is an impressive demonstration of the technical prowess of the Indian Space Research Organisation (Isro), making India only the fourth country to achieve a successful controlled moon landing. This achievement is especially exciting, given the crash landing that led to Chandrayaan-2's partial failure and the very recent setback of a Russian lunar mission. The next stage in the Chandrayaan- 3 mission would be the rollout of the Pragyan Rover, after four or five hours of Vikram studying local conditions and checking its systems. Pragyan is scheduled to come down a ramp and then move around the unexplored South Pole of the moon, conducting experiments.

It is supposed to analyse the soil and plasma density at the surface, study possible sub-surface temperature conductivity, and observe local seismic conditions, as well as the earth-moon orbital dynamics. The rover is expected to remain active for the next fortnight (one lunar day), and the results of the studies, whatever they may be, will add to the sum of knowledge about the earth's satellite. Apart from the blue sky gains in scientific knowledge, the technological capacity developed for missions like this usually finds concrete utilisation on the earth, as has been the case with Isro's previous missions. The space agency provides a wide range of commercially useful services. Isro is a huge player in India's communication infrastructure, as well as in providing key inputs for weather services, geographical and geo-mapping information, and it is, of course, also a commercially successful, cost-effective satellite launcher.

The expertise the agency has developed in telemetry and telecommand systems, power systems and management, on-board computers, navigation, radiation shielding, heat shielding, propulsion systems, etc, will serve it well in future. For example, the landing was practically autonomous. The moon is about 1.5 lightseconds away from the earth, which makes it impossible to control the last stages of the landing from here.

Reforms in India's aerospace policies have led to a large number of private entities contributing to this mission. Many Indian companies have already improved their grasp of cutting-edge technology by making components for Chandrayaan-3. Also, in principle, Isro will share its intellectual property and learnings from this and other missions, which would further enhance capabilities of private firms. There are already some 400 Indian startups focused on aerospace. Many larger concerns, such as Larsen & Toubro, Paras Defence, Bharat Heavy Electricals Ltd, Godrej & Boyce, and HAL, also contributed to the mission, and the listed companies saw their shares shoot up.

Further collaborations between the private sector and Isro should enable all these companies to seek new opportunities in the global aerospace industry. Isro could also see its market share rise after this technological demonstration. This could be significant since Isro has only around 2 per cent market share in the global aerospace sector. The possible applications of many of these new technologies in the defence sector should also not be overlooked. This could give a fillip to the atmanirbhar programme in the defence sector. The sheer enthusiasm a success like this generates should also not be underestimated. There will be many schoolchildren who watched this mission and some of them will surely be inspired to find a life in science in future.

Look What Our Research Analyst Has To Say...

Nifty View

Broadly, the index is trading in a range of 19200 to 19600 and is respecting falling trendline on daily chart. We expect the trendline to continue providing resistance and a downward trajectory to follow, with an expectation of 18800 in the coming week.

Anshul Jain

Sr. Research Analyst

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Sector To Watch

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PHARMA SECTOR

In Q1FY24, the Pharma Coverage sector saw strong 20.5% YoY and 6.1% QoQ revenue growth due to increased production, new launches like Revlimid, and stabilized US pricing. EBITDA margin improved by 581 bps YoY and 234 bps QoQ. US sales were robust, aided by gRevlimid and supply shortages, stabilizing price erosion. Indian growth relied on price hikes and chronic therapy demand.

FY24 anticipates low double-digit domestic and robust US market growth, with decreased price erosion due to supply constraints. Improved margins are expected from normalized costs and better product mix. Challenges include USFDA inspections and potential post-shortage price erosion. Focus remains on niche US products and strong Indian market presence.

Stock To Watch

GMDC

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 7,206 Cr	₹ 34.3	₹ 1,089 Cr	23%	74%

Gujarat Mineral Development Corporation (GMDC) plans a INR 2,900 crore CAPEX for FY'24, focusing on capacity growth and new mines. They're exploring rare earth materials and adjacent minerals like limestone and lithium. FY'24 targets include 8 million tons of lignite and 500,000 tons of bauxite production, aiming for INR 3,500 crore turnover with a 30% EBITDA margin.

Q1 FY'24 saw lower lignite realizations and sales, but GMDC holds INR 2,000 crore cash. The company is debt-free, achieved 28.5% CAGR profit growth in 5 years, and improved debtor days to 19.7, with reduced working capital needs (198 to 149 days).

On Daily Charts GMDC has give a bullish breakout of 3T VCP pattern with volume twice the 50day Moving Average. Upside of 20-25% from current levels looks highly likely.

ALLSEC TECHNOLOGIES

Market Cap.	EPS	Net Profit	ROE	Promoter Holding
₹ 922 Cr	₹ 33.5	₹ 51 Cr	22.2%	73.4%

Allsec Technologies Limited operates with two wholly-owned subsidiaries: Allsectech Inc. in the USA and Allsectech Manila Inc. in the Philippines. They boasts a widespread presence across India with a capacity exceeding 4000 seats spread across three locations: NCR, Bengaluru, and Chennai. The board of Directors sanctioned the merger of Allsec Technologies Limited with Quess Corp Limited on June 22, 2022. Looking forward, Allsec remains focused on expanding its presence in the North American market, witnessing significant growth in ACV during FY22. Furthermore, the company's stock offers an appealing dividend yield of 3.31%.

Allsec Daily Charts has give a bullish breakout of 3T VCP pattern with volume after good consolidated zone twice the 20day Moving Average. Upside of 20-25% from current levels looks highly likely.

THANK YOU

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