



Renaissance Investment Managers

Dear Investors,

FY26 Union Budget, the three Cs—Capex, Consumption and Consolidation

The Union Budget is aimed at driving a more balanced growth between Capex and Consumption, while continuing on the promised path of fiscal Consolidation. The demand stimulus through changes in slabs/rates of personal income taxes (potentially aggregating to Rs1.0tn) also addresses the current cyclical slowdown in urban consumption. Rural consumption is already showing early signs of revival, thanks to improvement in agricultural output/sowing growth, higher budgetary allocations and an uptick in real wage growth (softening inflation).

Income tax cuts would benefit individuals earning taxable income of over INR 0.7mn p.a. (middle class and above). Annual benefit per tax payer is estimated at around INR 55,000, and a higher benefit (> INR 100k) would accrue to those earning INR 2mn or more. **Some of the Key sector beneficiaries of tax cuts: (1) Consumer discretionary—2W, Durables, Paints, QSR, Food Delivery, Apparel, Footwear, Hotels, Airlines; (2) NBFCs and Banks focused on consumer financing; (3) Banks and capital market companies; and (4) Consumer staple companies with premium portfolios.**

The Budget Math (FY26BE versus FY25RE)

Gross Fiscal Deficit or GFD is budgeted to be flat at INR 15.7tn, and thus a Nominal GDP growth of 10% in FY26 would result in GFD/GDP coming down to 4.4% from 4.8%. Flat GFD implies that increase in Receipts (+3.5tn) matches with the budgeted increase in Expenditure.

Receipts: Budgeted growth of 11% in total receipts is based on **11% growth in net taxes** and 10% growth in non-tax receipts. Net tax growth 11% assumes 14.3% in personal income taxes (including capital gains and STT), which may be somewhat optimistic, given the 1tn of taxes forgone from changes to tax rates/ slabs. Adding back the taxes forgone would imply a 22% growth in income tax receipts in FY26BE versus 20% growth budgeted for the current fiscal.

Expenditure: Government has kept revenue expenditure or Revex on a tight leash, with a budgeted growth of 4.2% (vs 5.3% this fiscal). Capex growth of 10% is similar to NGDP growth, thus keeping Capex-to-GDP flat yoy at 3.1%. However, capex-mix has improved in favor of Defense (+13%), Housing & Urban Infra (+19%) and Loans to States (+20%), while capex towards Roads/Highways/Railways has been kept same at FY25RE level. Interest expense-to-GDP continues to be rather sticky at 3.6% vs 3.5% in current fiscal, implying growth of 12% yoy in total amount.

Summary of Budget [Source: Union Budget documents]

INR trillions, March FY-end			Change	Change
Receipts	FY25RE	FY26BE	(INR Tn)	(%)
Net tax receipts	25.6	28.4	2.8	11.0
Non tax receipts	5.3	5.8	0.5	9.8
Capital receipts incl. divestments	0.6	0.8	0.2	28.8
Total receipts	31.5	35.0	3.5	11.1
Expenditure				
Revex	25.6	26.7	1.1	4.2
Capex	10.2	11.2	1.0	10.1
Interest	11.4	12.8	1.4	12.2
Total Expenditure	47.2	50.7	3.5	7.4
Gross Fiscal Deficit [GFD]	15.7	15.7	(0.0)	
GFD/GDP (%)	4.8	4.4		
Primary Deficit [PD]	4.3	2.9	(1.4)	(32.2)
PD/GDP (%)	1.3	0.8		
Nominal GDP	324.1	357.0	32.9	10.1

The union government has reiterated its focus on continuously bringing down the Debt/GDP ratio from 56.1% in FY26BE to 50% by FY31. This should happen, weakens, Primary Deficit (budgeted at 1.5% of debt) + Borrowing Cost (6.5% currently) remain below the N-GDP growth rate (10%).

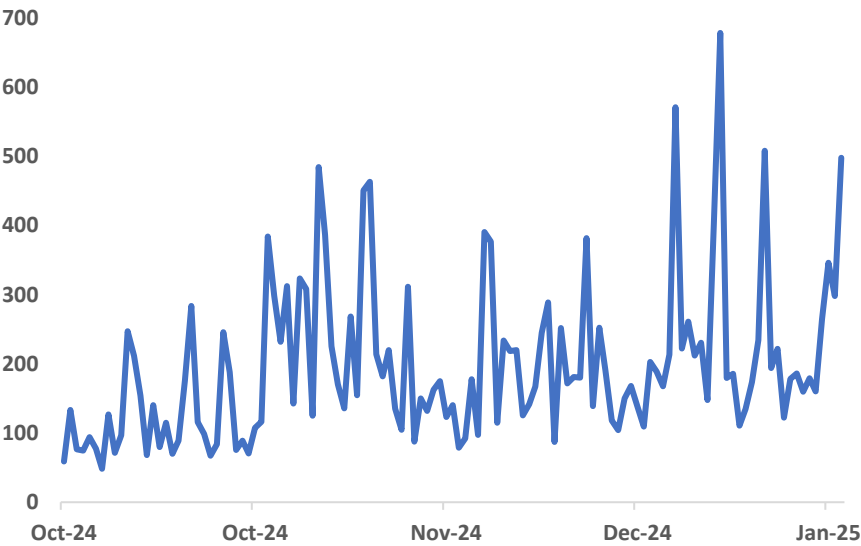
Trump uncertainty, dollar and the cost of capital

We believe cost of capital will continue to remain a headwind for risk assets globally (especially for EM equities), until the US labor market weakens, and US GDP growth rate sharply decelerates to below trend-growth, prompting the Fed to pursue faster rate easing. Since the US elections in November 2024, the US 10-year real interest rate has moved up to over 2.0% from 1.5% levels, resulting in sharp USD appreciation (DXY up 6.5%), driven by a tri-fecta of expectations—higher GDP growth, higher inflation, and higher deficits.

Trump’s election victory has been on the promises of Tariffs and Deportations – both of which are inflationary. Further, US budget deficits will remain a concern, as any benefits from DOGE are unlikely to be material or quick enough to allay bond-market concerns. This should keep the US 10-year yields elevated through much of this year. Further, Trump’s announcements and actions are leading to heightened economic uncertainty, which should logically result in elevated premium for risk assets.

Thus, in our view, the cost of capital is likely to remain a headwind through much of 2025, based on elevated US risk free rate (10-year bond yield) and the elevated equity risk premium.

US Economic Policy Uncertainty Index



Source: FRED

Expect markets to consolidate in the near term; we remain constructive and selective

Earnings trends for 3QFY25 have been muted so far. The combined revenue of nearly 1500 listed-companies that have declared their December-quarter results, has risen 6.0% yoy, while net profits have grown at 4.8%. For non-financial (non-BFSI) companies, the topline grew by 4.1%, while profits were up 1.3% [Source: CMIE]. Energy and IT services companies have seen upgrades, while Banks and Pharma sector results have been broadly in line with expectations.

India’s GDP growth rate is likely to improve in coming quarters, thanks to a cyclical pick up in government’s capex spending, consumption boost in the union budget and monetary easing by the RBI. However, without positive surprises in the corporate earnings, FIIs are likely to remain on the sidelines, because of: (1) INR-depreciation bias from RBI rate cuts; and (2) heightened economic uncertainty, high real rates in the US and a strong dollar.

Nifty-50 was down 0.5% in January, but the broader market (Nifty-500) was down 3.5%. FPI net equity outflows were US\$8.4bn in in January. At roughly 23,600 level currently, Nifty-50 index is priced at a 1-year forward P/E of 20x on consensus earnings estimates, which is similar to the last 10-year average valuation (20x). The Nifty 50 companies are expected to deliver earnings growth of 7% in FY25, as compared to 16% growth in FY24. We expect Nifty Index returns to be measured in the near term.

A largely side-ways market with narrowing breadth, aligns favorably with our investment approach of building focused portfolios of quality companies that can deliver sustainable growth over the medium to long term. Our portfolio is skewed towards credit growth, export/outourcing and select consumer discretionary plays. We are invested in pockets having attractive valuations (e.g. private sector financials, housing NBFCs), as well as in pockets that we expect would deliver a higher amount and/or longevity of earnings growth at reasonable prices (such as IT, Pharma, Telecoms etc.). We continue to maintain our disciplined stock selection process to ensure long term, sustainable returns for our investors.

Happy Investing

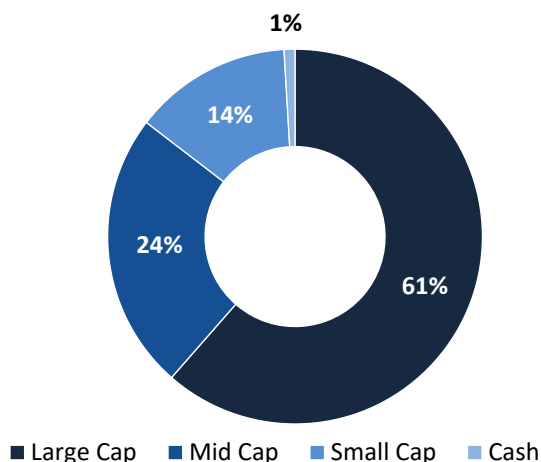
Pankaj Murarka
Founder & CIO

Pre-Tax Returns		(As on 31 st March 2024)		
Fund / Index	1 Year	2 Years	3 Years	5 Years
CRISIL AIF Index – CAT III (INR)	31.1%	13.5%	16.0%	14.9%
INDIA NEXT FUND II	47.9%	15.2%	N/A	N/A
INDIA NEXT FUND III	N/A	N/A	N/A	N/A

N/A – As the respective fund has not completed 1yr, 2yr, 3yr and 5yr as on 31st March 2024. Returns for more than one year are annualized.

Theme: Brand, Internet, Technology & Science (BITS)

Portfolio Capitalization



Portfolio Highlights

Particulars	FY24	FY25E	FY26E
PAT growth (%)	16.3	12.4	17.5
ROE (%)	13.6	12.9	13.5
P/E	25.3	22.5	19.2

Top Holdings

Company	Weight(%)
Tech Mahindra Ltd	9.10%
Info Edge (India) Ltd	7.97%
HDFC Bank Ltd	7.38%
One 97 Communications Ltd	5.13%
Infosys Ltd	5.11%

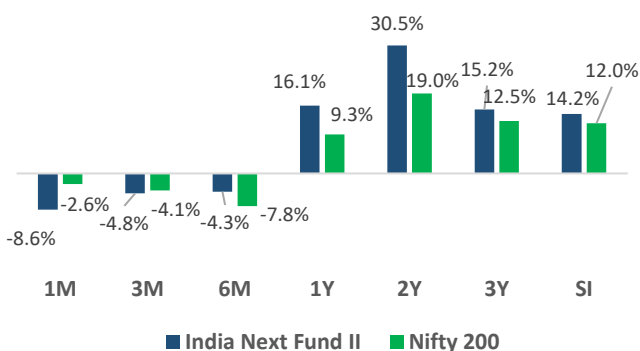
Renaissance India Next Fund II - Risk

Time Period: Last 12 Months
 Calculation Benchmark: Nifty 200

	Portfolio	Nifty 200
Std Dev	18.04%	15.08%
Sharpe Ratio	0.53	0.18
Beta	1.07	1.00
Treynors Ratio	0.09	-
Information Ratio	0.84	-

Returns

Calculation Benchmark: Nifty 200



Sectoral Weights

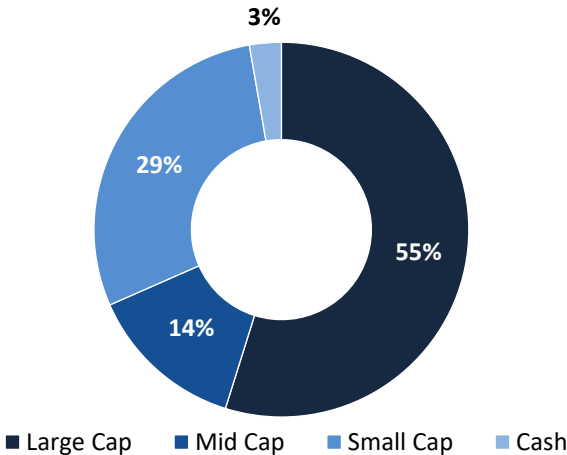
Sector	Weight(%)
IT & Tech	32.23%
BFSI	27.46%
Consumer Discretionary	15.53%
Pharma & Chemicals	10.94%
Diversified	4.58%

Fund and Benchmarks returns are Pre-tax

Returns for more than one year are annualized
 The performance related information provided herein is not verified by SEBI.

Theme: India Growth 2.0

Portfolio Capitalization



Portfolio Highlights

Particulars	FY24	FY25E	FY26E
PAT growth (%)	15.3	8.2	16.7
ROE (%)	13.3	12.2	12.7
P/E	19.0	17.6	15.0

Top Holdings

Company	Weight(%)
Reliance Industries Ltd	8.42%
HDFC Bank Ltd	8.12%
Tech Mahindra Ltd	5.91%
Infosys Ltd	5.52%
ICICI Bank Ltd	4.79%

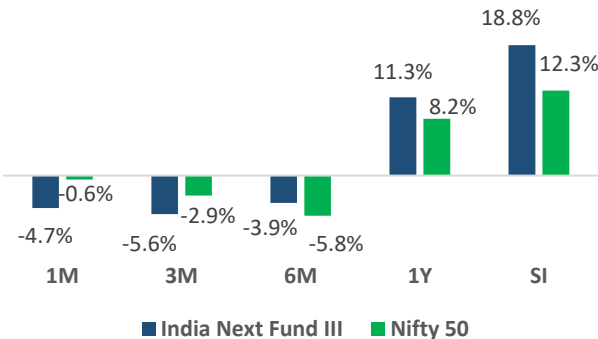
Renaissance India Next Fund III - Risk

Time Period: Last 12 Months
Calculation Benchmark: Nifty 50

	Portfolio	Nifty 50
Std Dev	16.38%	13.80%
Sharpe Ratio	0.29	0.11
Beta	1.01	1.00
Treynors Ratio	0.05	-
Information Ratio	0.36	-

Returns

Calculation Benchmark: Nifty 50



Sectoral Weights

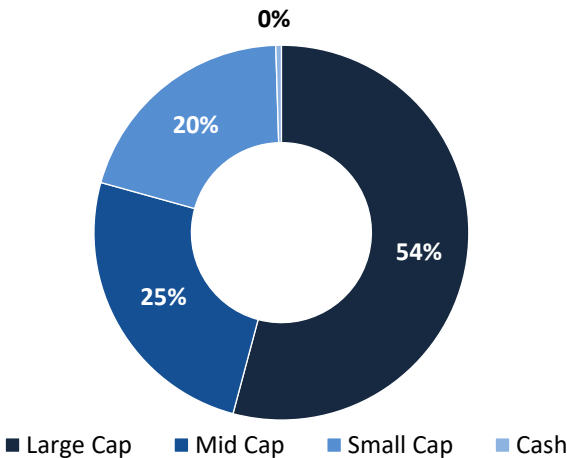
Sector	Weight(%)
BFSI	35.58%
IT & Tech	22.66%
Pharma & Chemicals	10.59%
Diversified	8.42%
Consumer Discretionary	7.32%

Fund and Benchmarks returns are Pre-tax

Returns for more than one year are annualized
The performance related information provided herein is not verified by SEBI.

Theme: India Next

Portfolio Capitalization



Portfolio Highlights

Particulars	FY24	FY25E	FY26E
PAT growth (%)	17.8	10.9	17.1
ROE (%)	13.6	12.7	13.2
P/E	22.4	20.2	17.2

Top Holdings

Company	Weight(%)
HDFC Bank Ltd	8.52%
Tech Mahindra Ltd	7.14%
Reliance Industries Ltd	6.03%
Infosys Ltd	5.33%
HDFC Asset Management Company Ltd	4.56%

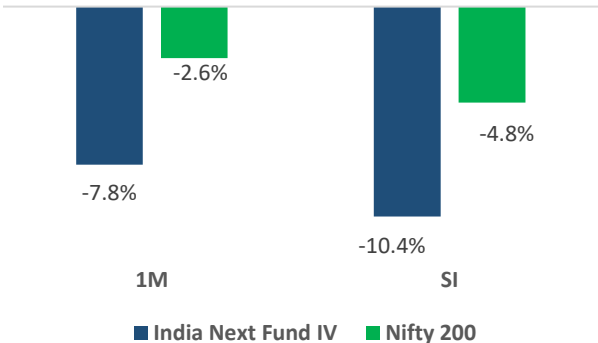
Renaissance India Next Fund IV - Risk

Time Period: Last 12 Months
Calculation Benchmark: Nifty 200

	Portfolio	Nifty 200
Std Dev	NA	NA
Sharpe Ratio	NA	NA
Beta	NA	NA
Treynors Ratio	NA	NA
Information Ratio	NA	NA

Returns

Calculation Benchmark: Nifty 200



Sectoral Weights

Sector	Weight(%)
BFSI	35.96%
IT & Tech	18.30%
Pharma & Chemicals	12.14%
Consumer Discretionary	8.95%
Diversified	6.03%

Fund and Benchmarks returns are Pre-tax

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Investment Philosophy

Sustainable Quality Growth At Reasonable Price (SQGARP)



Sustainability

Companies with sustainable and durable business models.



Quality

Superior quality businesses as demonstrated by Competitive edge, Pricing power, ROE, FCF.
Good quality and competent management teams.



Growth

Business that can deliver superior growth over medium term to long term.



Price

Ability to invest at reasonable valuations. Fair value approach to valuations.
Focus on economic value of business.

Statutory Details: Renaissance Investment Mangers Private Limited ("RIMPL") is registered under SEBI (Portfolio Managers) Regulations, 1993 as a Portfolio Manager vide Registration No. INP000005455. RIMPL is also an Investment Manager to Renaissance Alternate Investment Fund – Category III which is registered with SEBI as Alternate Investment Fund under SEBI (Alternative Investment Funds) Regulations, 2012 vide Registration No: IN/AIF3/18-19/0549.

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