ALCHEMY
CAPITAL MANAGEMENT

# Investment Matters

**February 2021**

## A Growth-Stimulating Budget

*The watershed FY22 budget has, in our view, changed the trajectory of the Indian economy and the markets. We now see a sustained recovery out of the post-pandemic slump and a multi-year growth cycle of 6%+, led by capital expenditure. This should support a strong market for the next few quarters, with a greater participation from cyclicals. We continue to be fully invested and focused on quality companies, with increased sector diversification to capture the changing trends.*

**Table 1: Mid cap outperforms**

| Performance (%) | | | | | |
|---|---|---|---|---|---|
| | Jan-21 | 1m | 3m | 6m | 1Y |
| **Major Indian indices** | | | | | |
| Sensex | 46,286 | -3.1% | 16.8% | 23.1% | 13.7% |
| Nifty | 13,635 | -2.5% | 17.1% | 23.1% | 14.0% |
| CNX-100 | 13,743 | -2.5% | 17.0% | 22.5% | 13.7% |
| CNX-500 | 11,302 | -1.9% | 18.0% | 25.1% | 14.6% |
| **Mid-cap and Small-cap Indices** | | | | | |
| BSE Mid-cap | 18,082 | 0.8% | 21.3% | 31.4% | 16.9% |
| BSE Small-cap | 17,988 | -0.6% | 20.8% | 38.1% | 22.6% |
| CNX Mid-cap | 20,910 | 0.3% | 22.5% | 35.2% | 16.1% |
| CNX Small-cap | 7,177 | 1.3% | 23.3% | 43.2% | 15.3% |
| Nifty-Mid-cap 50 | 6,003 | 2.2% | 28.6% | 41.3% | 22.1% |

**Source: Bloomberg, Alchemy Research.**

## Watershed budget

The Union budget of FY22 could have a long-lasting impact on the direction of the Indian economy. In many ways, this budget heralds a new direction for India's economic policy.

a) The government has taken a deliberate strategy of fiscal expansion. The structure of the Indian fiscal is that revenues are very elastic to growth, but expenses are sticky. This warrants a countercyclical response: the fiscal deficit should be expanded in a slowdown. This change in mindset and approach would imply a faster recovery out of the multi-year growth slowdown that started in FY17.

b. The budget has set new standards for transparency on two counts. First, the "below-the-line" accounting of incremental expenditure towards food subsidies has been brought into the main budget. This has pushed up the headline fiscal deficit, but the improved disclosures demonstrate positive intent. Secondly, the tax revenue assumptions are conservative, which is rare for an Indian budget. This helps manage market expectations (always better to exceed promises) and improves credibility.

c. The pattern of expenditure is shifting towards capital expenditure from consumption. The share of capital expenditure in the budget rises from 13% to 16% between FY19-FY22. There has been some criticism levelled about the absence of an income support plan for the poor – however, the increased capex is a more durable stimulus and will ultimately flow through to the bottom of the pyramid.

d. The approach to privatisation is the other major inflection point on policy. The immediate positive impact is that it helps fund the expansionary budget without raising taxes. The more long-term benefit is that the privatised PSUs become more efficient and, over the longer term, stop relying on the exchequer for continued funding.

**The Economy**

The budget is likely to accelerate the recovery of the economy out of the pandemic-induced slump. The growth is expected to have a few peculiar features over the next 12-18 months. First, the key delta is likely to be capex and construction, rather than private consumption. Second, higher income segments should continue to grow much faster in this period, as has been the case during the recovery period of the last 2-3 quarters. The good news is that this is a temporary phase – in 2-3 years, we expect the recovery to become more broad-based and inclusive. We are, in general, more optimistic after this expansionary budget and see a sustained 6%+ growth for a lengthy period.

**Cyclicals over defensives**

The government's changed approach and the strength of the recovery could have implications for the market. We believe that cyclical sectors could sustain their relative outperformance over the medium term, after a long spell of defensives-driven markets leading up to mid-2020. The expected rally in global commodity prices is an additional facet to keep in mind. The other side of this coin that earnings growth could finally come back as a key driver for the market, vs the sustained rerating of quality stocks that was the hallmark of the previous decade.

**Table 2: Auto Sector bounces back**

| Performance (%) | | | | | |
|---|---|---|---|---|---|
| **NSE Sector indices** | **Jan-21** | **1m** | **3m** | **6m** | **1Y** |
| CNX Bank | 30,566 | -2.2% | 27.9% | 41.2% | -0.9% |
| CNX Auto | 9,813 | 6.7% | 26.5% | 34.8% | 21.4% |
| CNX Realty | 306 | -2.6% | 33.9% | 52.1% | -7.7% |
| CNX Infrastructure | 3,672 | 0.6% | 17.3% | 16.4% | 12.9% |
| CNX Energy | 16,159 | -4.5% | 7.9% | 5.6% | 8.9% |
| CNX FMCG | 33,121 | -3.1% | 12.5% | 7.3% | 7.6% |
| CNX Pharma | 12,170 | -5.8% | 8.2% | 9.2% | 49.5% |
| CNX IT | 24,646 | 1.6% | 17.8% | 36.4% | 52.7% |

**Source: Bloomberg, Alchemy Research**

**Key risks**

The strong macro tailwind should sustain the markets for the next few years. A few risks need to be flagged, though we do not see any of them destabilising the positive momentum. The easy liquidity of CY20 is likely to slowly tighten, though the trajectory will be too gradual to disrupt the growth story. Long term yields, however, should harden further because of the increased borrowing. Rising commodity prices pose multiple challenges – inflation, margin stresses for user industries and, in an extreme scenario, a rising current account deficit. This should, however, be offset by continued influx of global liquidity.

**Our approach**

We continue to build out our portfolio on our core principles: minimise cash holdings, focus on large companies with potential to gain market share, minimise risk by avoiding companies with weak balance sheets and poor capital allocation and emphasising sector diversification. We are, however, likely to tweak our stance to focus a little more on cyclicals – but to companies with strong balance sheets, cash flows and return ratios.

**Seshadri Sen**
**Head of Research**
**Alchemy Capital Management Pvt. Ltd**

***Source :***
***Alchemy Research***
***Bloomberg***

Alchemy view on Market trends, analysis, and way forward; with additional inputs from industry experts about the different aspects to superlative asset management.

**1. Blogs – Jan 2021**

- Positive Tailwinds to Continue

  Read More

**2. Product Update***

Alchemy High Growth

**3. Interviews – Jan 2021***

- Theme for 2021 likely to be everything digital and cyclical

  Mr. Hiren Ved to CNBC TV-18
- Beat The Street With Hiren Ved

  Mr. Hiren Ved to ET Now
- The Economic times Markets Podcast with Hiren Ved

  Mr. Hiren Ved to ET Now

**4. Market Views – Jan 2021***

Watch Here

*Hyperlinks to other websites made available here are to be accessed at the sole risk of the user; the content, accuracy, opinions expressed, and other links provided by these resources are not investigated, verified, monitored, or endorsed by Alchemy.

ALCHEMY CAPITAL MANAGEMENT

## Q1FY21 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies** who have declared results so far in Q3FY21 :

| Stock | Sales ( Rs Mn) | | | EBITDA ( Rs Mn) | | | PAT ( Rs Mn) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Q3FY21 | Q3FY20 | % chg | Q3FY21 | Q3FY20 | % chg | Q3FY21 | Q3FY20 | % chg |
| Asian Paints Ltd | 67,885 | 54,203 | 25% | 17,879 | 11,894 | 50% | 12,401 | 7,605 | 63% |
| Avenue Supermarts Ltd | 74,327 | 67,519 | 10% | 6,914 | 5,931 | 17% | 4,703 | 3,943 | 19% |
| Bajaj Auto Ltd | 87,301 | 74,364 | 17% | 17,296 | 13,672 | 27% | 15,563 | 12,616 | 23% |
| Bajaj Electricals Ltd | 15,001 | 12,839 | 17% | 1,475 | 673 | 119% | 982 | 94 | 945% |
| Bajaj Finance Ltd | 42,958 | 45,349 | -5% | 29,062 | 29,999 | -3% | 11,460 | 16,132 | -29% |
| Britannia Ltd | 31,061 | 29,360 | 6% | 6,115 | 5,020 | 22% | 4,526 | 3,726 | 21% |
| Divi'S Laboratories Ltd | 17,014 | 13,963 | 22% | 6,912 | 4,939 | 40% | 4,706 | 3,591 | 31% |
| Dixon Technologies Ltd | 21,828 | 9,938 | 120% | 1,005 | 515 | 95% | 616 | 263 | 134% |
| Dr Reddy'S Laboratories Ltd | 49,296 | 43,838 | 12% | 11,260 | 10,188 | 11% | 198 | -5,697 | - |
| HCLTechnologies Ltd | 193,020 | 181,350 | 6% | 54,420 | 44,700 | 22% | 39,810 | 30,380 | 31% |
| HDFC AMC Ltd | 4,819 | 5,247 | -8% | 4,988 | 4,809 | 4% | 3,693 | 3,526 | 5% |
| HDFC Bank Ltd # | 237,608 | 208,422 | 14% | 151,860 | 129,454 | 17% | 87,583 | 74,165 | 18% |
| HDFC Life Insurance @ | 21,570 | 18,260 | 18% | 50,510 | 42,360 | 19% | 2,600 | 2,500 | 4% |
| HDFC Ltd # | 48,837 | 125,219 | -61% | 43,465 | 1,21,380 | -64% | 29,258 | 83,725 | -65% |
| Hindustan Unilever Ltd | 116,820 | 96,960 | 20% | 28,540 | 24,450 | 16.7% | 19,210 | 16,160 | 19% |
| ICICI Bank Ltd # | 145,987 | 131,193 | 11% | 88,198 | 75,486 | 17% | 54,896 | 41,465 | 32% |
| ICICI Lombard General Insurance $ | 41,117 | 36,143 | 14% | | | | 3,135 | 2,941 | 7% |
| Infosys Ltd | 259,270 | 230,920 | 12% | 74,150 | 58,010 | 28% | 52,150 | 44,660 | 17% |
| Ipca Laboratories Ltd | 14,098 | 12,129 | 16% | 3,669 | 2,737 | 34% | 2,676 | 1,975 | 35% |
| Kotak Mahindra Bank Ltd # | 53,408 | 47,710 | 11.9% | 30,828 | 23,881 | 29% | 18,538 | 15,959 | 16% |
| L&T Infotech Ltd | 31,084 | 28,111 | 11% | 6,590 | 5,274 | 25% | 4,661 | 3,767 | 24% |
| L&T Technology Services Ltd | 14,007 | 14,229 | -2% | 2,756 | 2,863 | -4% | 1,861 | 2,041 | -9% |
| Maruti Suzuki Ltd | 222,367 | 196,491 | 13% | 22,261 | 21,021 | 6% | 19,414 | 15,648 | 24% |
| Max Healthcare Ltd | 10,860 | 10,130 | 7% | 2,520 | 1,600 | 58% | 1,350 | 400 | 238% |
| Multi Commodity Exchange Ltd | 1,009 | 893 | 13% | 487 | 392 | 24% | 718 | 556 | 29% |
| Reliance Industries Ltd | 1,179,000 | 1,533,000 | -23% | 216,000 | 227,000 | -5% | 148,000 | 118,000 | 25% |
| Sundram Fasteners Ltd | 11,087 | 8,225 | 35% | 2,305 | 1,267 | 82% | 1,427 | 1,042 | 37% |
| Syngene International Ltd | 5,845 | 5,191 | 13% | 1,762 | 1,535 | 15% | 1,022 | 918 | 11% |
| Tata Consultancy Services Ltd^ | 420,150 | 398,540 | 5% | 111,840 | 99,740 | 12% | 87,010 | 81,180 | 7% |
| Tata Consumer Products Ltd | 30,696 | 24,930 | 23% | 3,613 | 3,181 | 14% | 2,182 | 1,693 | 29% |
| Tata Elxsi Ltd | 4,771 | 4,234 | 13% | 1,436 | 942 | 52% | 1,052 | 754 | 39% |
| Trent Ltd | 7,254 | 8,697 | -17% | 1,800 | 1,735 | 4% | 797 | 557 | 43% |
| United Breweries Ltd | 12,897 | 14,533 | -11% | 1,735 | 2,208 | -21% | 1,264 | 1,064 | 19% |
| United Spirits Ltd | 24,887 | 25,825 | -4% | 3,838 | 4,240 | -9% | 2,299 | 2,588 | -11% |
| V-Mart Retail Ltd | 4,700 | 5,622 | -16% | 1,038 | 1,168 | -11% | 479 | 582 | -18% |

* indicates CY end - So Q3FY21 = Q4CY20

***Source-Alchemy Research***

# indicates Net Interest Income + Other income, Pre-Provision Operating Profit and PAT for banks
@ Indicates Annual Premium Equivalent (APE) and Value of New Business (VNB) for life insurance companies
$ Indicates Net Written Premium and PAT for general insurance companies
^ Sales EBIT and PAT
** For Alchemy High Growth, Alchemy High Growth Select Stock & Alchemy Leaders Portfolios

# DISCLAIMER

**Regulatory Disclosures:**

- **All clients have an option to invest in the above products / investment approach directly, without intermediation of persons engaged in distribution services.**
- **Performance related information provided hereinabove are not verified by SEBI.**

**General Risk factors**

All products / investment approach attract various kinds of risks. Please read the relevant Disclosure Document/ Client Agreement carefully before investing.

**General Disclaimers**

- The information and opinions contained in this report/ presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete.
- Information and opinions contained in the report/ presentation are disseminated for the information of authorized recipients only and are not to be relied upon as advisory or authoritative or taken in substitution for the exercise of due diligence and judgement by any recipient.
- The information and opinions are not, and should not be construed as, an offer or solicitation to buy or sell any securities or make any investments.
- Nothing contained herein, including past performance, shall constitute any representation or warranty as to future performance.
- The client is solely responsible for consulting his/her/its own independent advisors as to the legal, tax, accounting and related matters concerning investments and nothing in this document or in any communication shall constitutes such advice.
- The client is expected to understand the risk factors associated with investment & act on the information solely on his/her/its own risk. As a condition for providing this information, the client agrees that Alchemy Capital Management Pvt. Ltd., its Group or affiliates makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, direct or indirect, arising from the use of this information.
- This document and its contents are proprietary information of Alchemy Capital Management Pvt. Ltd and may not be reproduced or otherwise disseminated in whole or in part without the written consent.

**Alchemy Capital Management Pvt. Ltd (SEBI Regn No:INP000000365) |B-4, Amerchand Mansion| 16 Madame Cama Road| Mumbai 400 001.**
**URL: www.alchemycapital.com |Email ID: contactus@alchemycapital.com | CIN-U67120MH1999PTC119811**