

Investment Matters

September 2021



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EQUITY OUTLOOK

Reform Momentum Accelerates

August 2021 was a strong month for the Nifty (+8.7%) with IT, FMCG and Energy leading the rally. There was some volatility, especially around the scare of a Fed taper, but that quickly dissipated on the back of a recovering economy and strong earnings momentum. We remain positive on the markets and believe that the current strength, led by cyclicals, exporters, and opening-up beneficiaries, will continue for a while longer.

		Performance (%)			
	Aug-21	1M	3M	6M	1Y
Major Indian indices					
Sensex	57,552	9.40%	10.80%	17.20%	49.00%
Nifty	17,132	8.70%	9.90%	17.90%	50.40%
CNX-100	17,373	8.30%	10.00%	18.40%	51.10%
CNX-500	14,556	6.50%	10.10%	19.50%	55.30%
Mid-cap and Small-cap Indices					
BSE Mid-cap	23,853	3.30%	9.60%	19.40%	62.70%
BSE Small-cap	26,920	0.50%	14.10%	33.60%	87.80%
CNX Mid-cap	28,417	2.20%	10.20%	22.10%	70.30%
CNX Small-cap	10,263	-2.50%	10.70%	27.50%	83.60%

Source: Bloomberg

		Performance (%)			
NSE sector indices	Aug-21	1M	3M	6M	1Y
CNX Bank	36,425	5.30%	2.50%	4.70%	53.30%
CNX Auto	10,034	-0.10%	-4.40%	-1.30%	28.00%
CNX Realty	387	-3.00%	15.10%	10.60%	73.60%
CNX Infrastructure	4,710	6.30%	8.80%	14.60%	48.90%
CNX Energy	20,290	7.20%	1.90%	8.00%	30.00%
CNX FMCG	39,530	9.60%	12.20%	21.80%	29.20%
CNX Pharma	14,345	-0.60%	2.10%	20.30%	29.50%
CNX IT	34,570	13.40%	27.50%	42.30%	92.80%

Source: Bloomberg

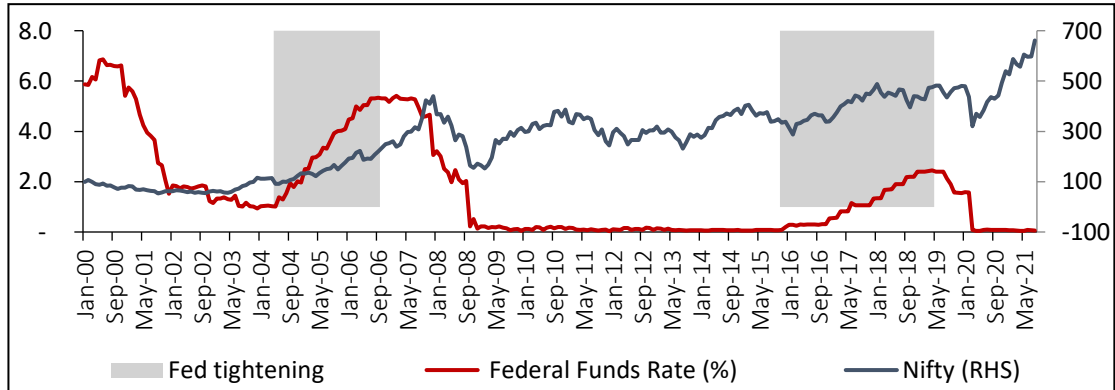
EQUITY OUTLOOK

Impact of US Fed Tapering

We think this is a red herring – historical data shows that Indian equity markets have often delivered strong returns through a tightening cycle. Rising interest rates is generally a negative for PE multiples but is usually accompanied by a recovering economy which drives earnings growth and upgrades.

Periods of fed tightening & subsequent returns				
Period	Change in fed rate (% Abs)	Nifty returns	MSCI EM returns	MSCI global returns
		(In US\$ terms)	(In US\$ terms)	(In US\$ terms)
May'04 - Sep'06	4.32	45%	29%	13%
Oct'16 - Apr'19	2.37	11%	9%	8%

Source: Ambit



Source: Ambit

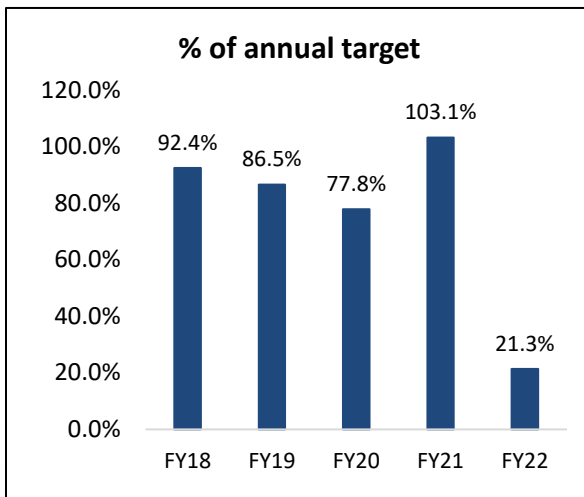
The federal tapering is bound to tighten at some stage, and this could create short-term market volatility. However, the more important driver for the markets is domestic growth and how it translates into corporate earnings. We focus more on monitoring the broader economy and companies than we do the rate cycle.

EQUITY OUTLOOK

India Macro drivers

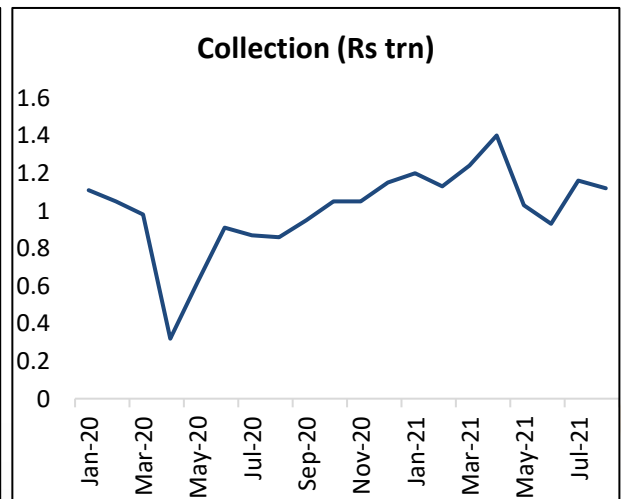
India is coming out of the macroeconomic slump induced by the Covid19 shock, and remnants of the stress are still visible. The post-lockdown recovery has been concentrated on higher-income segments (K-shaped) and the impact of the second wave on consumption behaviour is still unknown. There are, however, significant positives and we believe that the recovery should start to take hold as we enter 2HFY22.

- India’s GDP print for 1QFY22 was weak – the headline 20.1 % growth distorted by a base effect. This was largely the effect of the second wave of the pandemic, which had its most severe impact during this quarter. From a market’s perspective, this is not a very critical statistic: corporate earnings for the quarter have already given us a view. The important drivers for the market would be the opening-up recovery and the segments that participate. An important factor would be how quickly does the K-shaped recovery broaden into broader consumption growth.
- Government finances are in good shape. The fiscal deficit is at a mere 21.3 % of the annual target, significantly lower than usual (see chart below). Tax revenues, especially GST, have driven it. - The shift in approach to a looser fiscal policy in the 2021 budget means that the government can increase spending. We believe that capex spending – both public and private – will drive the next recovery cycle.



Source: Ambit

Note: Data relates to % age of fiscal deficit achieved between Apr-Jul 2021



Source: Ambit

EQUITY OUTLOOK

Inflation remains an overhang, induced by surging global commodity prices and supply chain choke-ups. We think this should remain elevated for some more time, as some of the constraints are unlikely to go away quickly. However, we believe that central banks will look through this phase and will begin tightening only when growth starts to return. This does raise the risk of sticky inflation over the longer term, but it is a risk that should be taken.

Reform momentum

The government has accelerated reform momentum in its second term after its re-election in 2019, with the 2021 budget being a watershed moment. Some of the announcements are now being executed. This remains a positive for markets as these will unlock efficiencies for the economy and improves long-term growth.

- The asset monetisation plan, announced in Aug-21, has multiple long-term positives. First, it unlocks government assets and creates a continuous flow of finances for the central government to re-invest in further infrastructure investments. Second, it improves the efficiency of those assets as they -will be better managed by the private sector. Third, it could be the catalyst for the long-term bond markets. Investors have been wary of funding infra projects as implementation risks are too high to be digested. These, however, will be steady cash-flow generating assets and the reduced risk could attract the vast pools of capital hunting for yields. However, speed of execution will be very critical.
- The appointment of bankers for the IPO of LIC is also significant. The issuance is a major fillip to the aggressive disinvestment and privatisation program of the government. True, some of the privatisation projects have been slow – we think that they could further take more time. However, the listing of a large company like LIC has benefits beyond just the cash flows it generates from the government. It deepens the markets, makes a large financial institution more transparent and signals the government’s seriousness on privatisation.
- Other reform measures from the government like labour, farm and electricity are operating at different speeds. The totality of it, however, should unlock significant potential growth for the economy over the longer term. It is also encouraging that the government does not seem to be taking a step back from these reforms even when faced with political backlash.

EQUITY OUTLOOK

Timing the markets is risky

We remain constructive on the markets and believe that the momentum should continue for a few more quarters as the goldilocks scenario of strong US economic growth coupled with a slow unwinding of stimulus. Any geopolitical events or a sudden unforeseen spike in inflation could be the near to medium term risks.

We reiterate our view that cyclicals, exporters, and opening-up trades should continue to outperform, though some high-quality consumer names remain attractive from a longer-term perspective. We are fully invested and deploying fresh inflows at an optimum pace we do not see any benefits of trying to time the markets at this stage. Our portfolios have been significantly re-positioned to reflect our thesis and we remain flexible to adapt if the situation warrants.

Seshadri Sen
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Source:
Alchemy Research
Bloomberg

MARKET INSIGHTS

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

1. Market Views : August 2021

[Market Views - August 2021 - YouTube](#)

2. Blogs – August 2021

- Market regaining momentum

[Read More](#)

3. Interviews – August 2021*

- Mr. Hiren Ved speaks to ET Now in the 'Beat The Street' segment

[Mr. Hiren Ved to ET Now](#)

- Mr. Hiren Ved in an interview with The Hindu Business Line

[Mr. Hiren Ved to Hindu Business Line](#)

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Q1 FY22 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies** for Q1 FY22 :

Stock	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q1FY22	Q1FY21	% chg	Q1FY22	Q1FY21	% chg	Q1FY22	Q1FY21	% chg
TATA ELXSI LTD	5,583	4,005	39%	1,500	927	62%	1,134	689	65%
BAJAJ FINANCE LTD #	44,895	41,521	8%	31,162	29,954	4%	10,024	9,623	4%
ICICI BANK LTD #	1,49,316	1,54,224	-3%	88,944	1,07,765	-17%	46,160	25,992	78%
RELIANCE INDUSTRIES LTD	14,43,720	9,12,380	58%	2,33,680	1,68,750	38%	1,38,430	1,29,260	7%
AVENUE SUPERMARTS LTD	50,318	38,332	31%	2,212	1,089	103%	1,151	496	132%
L&T TECHNOLOGY SERVICES LTD	279	237	18%	74	61	21%	52	42	24%
DIXON TECHNOLOGIES (INDIA) LTD	18,673	5,169	261%	479	169	183%	182	16	1038%
UNITED SPIRITS LTD	16,151	10,302	57%	1,677	-776	NA	963	-1,617	NA
TITAN COMPANY LTD	35,190	20,200	74%	1,070	-2,840	NA	200	-2,910	NA
TATA MOTORS LTD	6,64,065	3,19,831	108%	73,012	17,305	322%	-44,369	-85,003	NA
TATA CONSUMER PRODUCTS LTD	30,085	27,139	11%	3,995	4,827	-17%	1,881	2,801	-33%
DEEPAK NITRITE LTD	15,262	6,745	126%	4,598	1,884	144%	3,026	990	206%
GLAND PHARMA LTD	11,539	8,842	31%	4,363	4,126	6%	3,507	3,136	12%
TATA STEEL LTD	78,583	26,970	191%	30,938	1,520	1935%	24,540	-6,582	NA
SYNGENE INTERNATIONAL LTD	5,945	4,216	41%	1,496	1,278	17%	773	580	33%
LARSEN & TOUBRO INFOTECH LTD	34,625	29,492	17%	6,478	5,920	9%	4,969	4,164	19%
BAJAJ ELECTRICALS LTD	7,670	6,077	26%	267	-208	NA	228	-272	NA
HDFC LIFE INSURANCE COMPANY @	15,600	12,000	30%	408	291	40%	302	450	-33%
STATE BANK OF INDIA #	3,94,412	3,61,388	9%	1,89,748	1,80,611	5%	60,364	41,893	44%
VARUN BEVERAGES LTD*	24,498	16,402	49%	5,708	3,777	51%	3,188	1,430	123%
HDFC BANK LTD #	2,32,976	1,97,407	18%	1,51,371	1,28,293	18%	77,297	66,586	16%
ORACLE FINANCIAL SERVICES	13,974	13,373	4%	7,326	6,901	6%	5,242	4,798	9%
HINDALCO INDUSTRIES LTD	3,855	2,426	59%	508	253	101%	303	-61	NA
BLUE DART EXPRESS LTD	8,662	4,162	108%	1,591	-425	NA	313	-1,257	NA
ABB INDIA LTD*	14,250	9,859	45%	948	234	305%	684	168	307%
P I INDUSTRIES LTD	11,938	10,601	13%	2,489	2,292	9%	1,872	1,455	29%
DYNAMATIC TECHNOLOGIES LTD	3,204	1,910	68%	400	184	117%	25	-169	NA
DELTA CORP LTD	759	483	57%	-276	-330	NA	-287	-282	NA
TATA CONSULTANCY SERVICES LTD	4,54,110	3,83,220	18%	1,26,640	1,00,250	26%	90,080	70,050	29%
MINDTREE LTD	22,917	19,088	20%	4,645	3,478	34%	3,434	2,130	61%
ICICI SECURITIES LTD #	7,477	5,464	37%	4,167	2,594	61%	3,107	1,931	61%
AMBUJA CEMENTS LTD	33,712	21,767	55%	9,597	5,952	61%	7,232	4,534	60%
LARSEN & TOUBRO LTD	1,31,090	81,500	61%	10,259	5,816	76%	7,500	2,817	166%
NAVIN FLUORINE INTERNATIONAL	3,265	2,149	52%	778	538	45%	559	530	5%
DIVI'S LABORATORIES LTD	19,606	17,305	13%	8,521	7,001	22%	5,571	4,921	13%
MAX HEALTHCARE INSTITUTE LTD	13,222	5,718	131%	3,603	-223	NA	2,097	-3,750	NA
SUNDRAM FASTENERS LTD	9,388	2,767	239%	1,833	54	3294%	1,126	-235	NA
V-MART RETAIL LTD	1,774	781	127%	-20	-58	NA	-287	-336	NA
PRAJ INDUSTRIES LTD	3,863	1,296	198%	298	-148	NA	214	-104	NA
EICHER MOTORS LTD	19,428	8,092	140%	3,630	38	9453%	2,371	-552	NA
GLENMARK PHARMACEUTICALS LTD	29,649	23,448	26%	5,736	4,781	20%	3,066	2,349	31%
GARWARE TECHNICAL FIBRES LTD	2,431	1,511	61%	429	179	140%	319	180	77%
PIDILITE INDUSTRIES LTD	19,368	8,778	121%	3,476	664	423%	2,201	268	721%
INFO EDGE (INDIA) LTD	3,197	2,801	14%	997	1,046	-5%	1,010	832	21%
TRENT LTD	3,272	963	240%	-318	-1,191	NA	-838	-1,395	NA
BAYER CROPSCIENCE LTD	14,159	12,278	15%	3,223	3,253	-1%	2,537	2,529	0%
BHARAT FORGE CO LTD	13,718	4,270	221%	9,809	4,252	131%	1,667	-563	NA
INDIAN HOTELS COMPANY LTD	3,445	1,436	140%	-1,488	-2,661	NA	-2,903	-3,531	NA

* indicates CY end - So Q1 FY22 = Q2 CY21

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

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