

# Investment Matters

December 2021



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## EQUITY OUTLOOK

# A Perfect Storm, But It Will Pass

Multiple headwinds hit the market in November 2021 triggering a sharp sell-off. We think that most of the perceived negatives are being over-emphasised and this is a temporary phase. The economic recovery should drive a bounceback within months, though sectoral leadership could keep shifting. Earnings growth remains robust and broad-based and that is the main source of our confidence.

		Performance (%)			
	Nov-21	1m	3m	6m	1Y
<b>Major Indian indices</b>					
Sensex	57,065	-3.8%	-0.8%	9.9%	29.3%
Nifty	16,983	-3.9%	-0.9%	9.0%	31.0%
CNX-100	17,270	-3.4%	-0.6%	9.3%	32.0%
CNX-500	14,648	-2.9%	0.6%	10.8%	36.7%
<b>Mid-cap and Small-cap Indices</b>					
BSE Mid-cap	24,688	-2.3%	3.5%	13.5%	46.0%
BSE Small-cap	27,937	-0.2%	3.8%	18.4%	65.6%
CNX Mid-cap	29,651	-2.7%	4.3%	15.0%	50.4%
CNX Small-cap	10,661	-1.0%	3.9%	15.0%	62.2%

Source: Bloomberg

		Performance (%)			
NSE sector indices	Nov-21	1m	3m	6m	1Y
CNX Bank	35,695	-8.7%	-2.0%	0.5%	20.6%
CNX Auto	10,604	-6.1%	5.7%	1.1%	19.3%
CNX Realty	488	-2.2%	26.1%	45.1%	86.7%
CNX Infrastructure	4,959	-1.7%	5.3%	14.6%	44.8%
CNX Energy	22,823	-1.8%	12.5%	14.6%	40.4%
CNX FMCG	37,387	-2.2%	-5.4%	6.1%	17.9%
CNX Pharma	13,663	-1.6%	-4.8%	-2.8%	15.4%
CNX IT	35,044	1.8%	1.4%	29.2%	61.0%

Source: Bloomberg

## EQUITY OUTLOOK

### Portfolio approach

We continue our stance of remaining fully invested. Our sector focus is changing slightly from earlier:

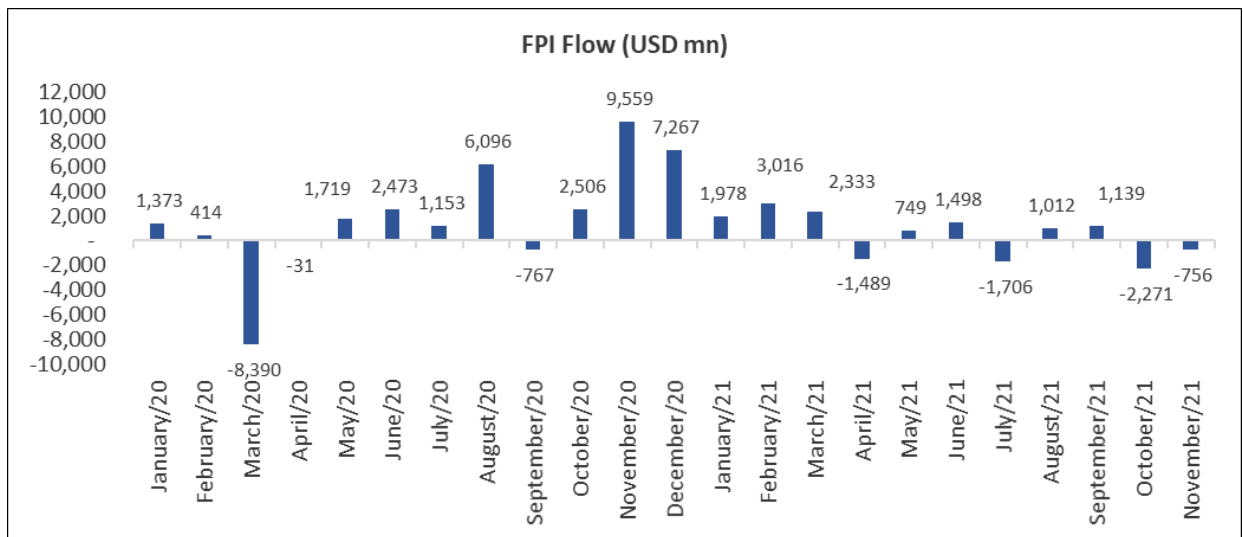
- We are looking at new opportunities within the consumer sector. The worst margin pressures seem to be over, with calibrated price hikes and moderating commodity prices. Our bias is towards high-growth companies.
- We are re-orienting the risk in our cyclical exposure. We have trimmed positions in the commodities stocks, as we find better risk-reward opportunities in other sectors. We remain positive on industrials, but are looking at companies with steady growth and strong balance sheets.
- Exporters remain an area of focus. Some sub-sectors, like IT, appear to be expensive but we still see opportunities in companies where the growth runway is strong and can withstand the expensive valuations.
- We still find compelling ideas within opening-up trades, but are reckoning the higher risk from a third wave and are a little more cautious on valuations. We are not trimming our existing exposures, though given the lack of clarity on the developing situation surrounding a fresh wave of Covid infections.

### Multiple negatives for the market

- **Omicron.** Covid-19 remains the biggest worry, with the emergence of a new variant and rising cases across Europe. India has remained resilient so far but a third wave, though unlikely, cannot be ruled out. It is difficult to factor such a binary, unpredictable event. We remain cognizant of the risks posed by a second wave but will adjust our portfolios when we have greater clarity, even if it means moving a bit late.
- **The PayTM listing.** India's largest-ever IPO opened 27% below issue price on listing day. This was negative for market sentiment. The issue highlights the greater risk in internet companies. We also note that this is the first internet IPO with a weak opening – others delivered strong listing gains, Those stocks, in fact, remained strong even when PayTM was selling off. Thankfully, some subsequent IPOs have sailed through without much stress, indicating that this may not a systemic issue.

## EQUITY OUTLOOK

- **Agri law repeal.** The government announced the withdrawal of the contentious agricultural laws passed in 2020. This is a setback to reforms and will keep a critical part of the economy weak and inefficient for many more years. We do not, however, share the pessimism that this marks a U-turn by the government on other reform areas like asset monetization and PSU privatization. Also, the direct impact on broader markets is muted: very few listed companies deal directly with the agri sector.
- **Weak FPI flows.** FPI flows seem to be drying up – probably a function of high headline valuations, end-of-year impact and downgrades by multiple brokerages. We think this is transient. We expect flows to start to come back as further evidence of growth (both macro and earnings) starts to filter through.



Source: Spark Capital Research

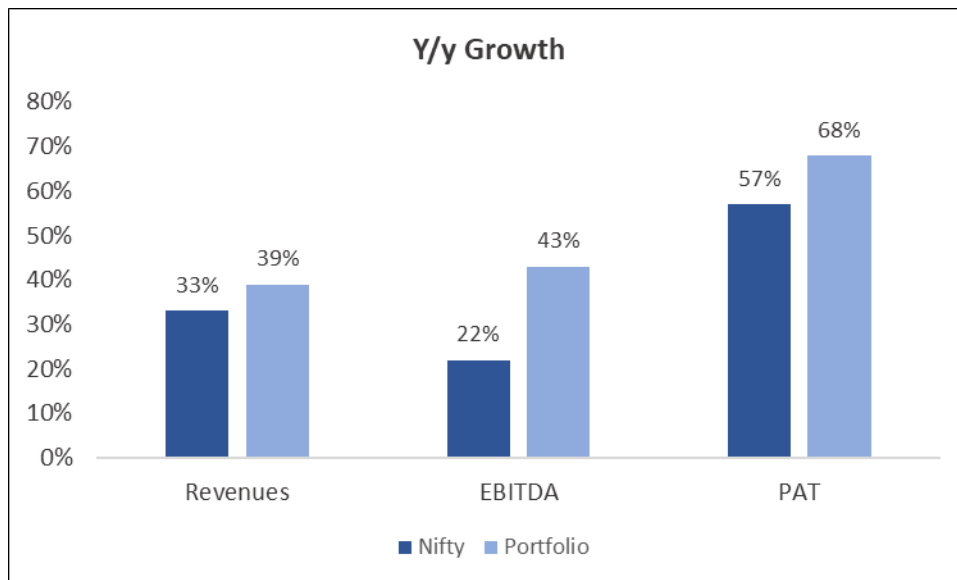
## Strong earnings season

All companies									
2QFY22	Revenue growth			EBITDA growth			PAT		
	y/y	q/q	2y cagr	Reported margin	y/y chg	q/q chg	y/y	q/q	2y cagr
Nifty	33%	11%	11%	17%	22%	7%	57%	24%	52%

Source: Spark Capital Research

## EQUITY OUTLOOK

We believe that the 2QFY22 earnings season was a strong one. The only negative was the compressed margins for the consumer sector, which was expected and offset by strong growth from commodity companies. The margin issue is getting resolved as companies take price hikes and the commodity cycle weakens in intensity. EPS growth for FY23 and FY24 remains strong and broadbased, and we see the possibility of the resumption of earnings upgrades on the back of a strong consumption recovery, normalising margins and compressed credit costs for banks.



*Note: Companies held across all portfolios as on 30 Nov 2021 are considered in the above chart*

*Source: Alchemy Research*

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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 :** [Market Views - November 2021 - YouTube](#)

**2. Blogs :** Market Outlook Remains Positive : [Read More](#)

**3. Interviews :**

- Beat The Street with Mr. Hiren Ved | Growth vs Inflation Debate: : [Mr. Hiren Ved to ET Now](#)
- Mr. Hiren Ved on CNBC TV18 : [Mr. Hiren Ved to CNBC TV 18](#)
- Beat The Street with Mr. Hiren Ved | Long Term Bull Market Is Intact In India: [Mr. Hiren Ved to ET Now](#)
- Mr. Seshadri Sen on ET Now Swadesh : [Mr. Seshadri Sen with ET Now Swadesh](#)

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## Q2 FY22 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies\*\* for Q2 FY22 :

Stock	Sales ( Rs Mn)			EBITDA ( Rs Mn)			PAT ( Rs Mn)		
	Q2FY22	Q2FY21	% chg	Q2FY22	Q2FY21	% chg	Q2FY22	Q2FY21	% chg
TATA ELXSI LTD	5,953	4,302	38%	1,701	1,068	59%	1,253	789	59%
BAJAJ FINANCE LTD	53,345	41,652	28%	33,048	30,059	10%	14,810	9,649	53%
DIVI'S LABORATORIES LTD	19,875	17,493	14%	8,370	7,546	11%	6,121	5,313	15%
ICICI BANK LTD #	1,64,868	1,33,944	23%	99,148	82,614	20%	60,608	48,016	26%
DEEPAK NITRITE LTD	16,814	9,873	70%	3,865	2,757	40%	2,543	1,702	49%
MAX HEALTHCARE INSTITUTE LTD	13,530	8,810	54%	3,620	1,430	153%	2,060	370	457%
AVENUE SUPERMARTS LTD	77,889	53,062	47%	6,686	3,295	103%	4,178	1,985	110%
L&T TECHNOLOGY SERVICES LTD	16,077	13,138	22%	3,493	2,328	50%	2,300	1,655	39%
LARSEN & TOUBRO INFOTECH LTD	37,670	29,984	26%	7,332	6,856	7%	5,517	4,568	21%
TITAN COMPANY LTD	74,930	45,530	65%	9,680	3,130	209%	6,410	1,740	268%
SUNDRAM FASTENERS LTD	12,423	8,893	40%	2,184	1,786	22%	1,225	1,024	20%
DIXON TECHNOLOGIES (INDIA) LTD	28,038	16,387	71%	1,100	894	23%	627	524	20%
UNITED SPIRITS LTD	24,468	21,459	14%	4,014	2,697	49%	2,243	1,284	75%
RELIANCE INDUSTRIES LTD	16,76,110	11,12,360	51%	2,60,200	1,89,450	37%	1,36,800	95,670	43%
TATA CONSUMER PRODUCTS LTD	30,331	27,813	9%	4,133	3,996	3%	2,803	2,712	3%
TATA MOTORS LTD	6,13,790	5,35,300	15%	51,558	56,015	-8%	-44,415	-3,145	NA
V-MART RETAIL LTD	3,380	1,755	93%	206	-3	NA	-141	-190	NA
GLAND PHARMA LTD	10,804	8,315	30%	3,765	2,977	26%	3,020	2,189	38%
PRAJ INDUSTRIES LTD	5,324	2,602	105%	462	160	189%	334	113	196%
P I INDUSTRIES LTD	13,542	11,577	17%	2,920	2,801	4%	2,296	2,176	6%
VARUN BEVERAGES LTD*	23,982	18,026	33%	4,947	3,808	30%	2,401	1,530	57%
STATE BANK OF INDIA #	3,93,910	3,67,092	7%	1,80,790	1,64,598	10%	76,270	45,742	67%
TATA STEEL LTD	3,25,823	2,16,007	51%	1,40,680	57,243	146%	87,083	25,387	243%
BAJAJ ELECTRICALS LTD	13,020	12,142	7%	943	1,031	-9%	625	540	16%
BLUE DART EXPRESS LTD	11,236	8,666	30%	2,752	2,286	20%	906	423	114%
ANGEL ONE LTD	3,880	2,116	83%	1,840	1,043	76%	1,344	746	80%
SYNGENE INTERNATIONAL LTD	6,102	5,196	17%	1,774	1,557	14%	920	841	9%
ORACLE FINANCIAL SERVICES SOFT	12,810	11,974	7%	6,294	5,778	9%	4,475	3,921	14%
GARWARE TECHNICAL FIBRES LTD	2,818	2,684	5%	509	572	-11%	410	441	-7%
EICHER MOTORS LTD	22,496	22,336	1%	4,699	4,711	0%	3,732	3,433	9%
HDFC LIFE INSURANCE COMPANY LTD @	25,500	21,400	19%	6,780	5,500	23%	2,800	3,300	-15%
FSN E-COMMERCE VENTURES LTD	8,853	6,038	47%	288	550	-48%	12	270	-96%
DYNAMATIC TECHNOLOGIES LTD	3,040	2,880	6%	380	410	-7%	30	20	50%
TATA CONSULTANCY SERVICES LTD^	4,68,670	4,01,350	17%	1,30,313	1,15,130	13%	96,530	84,620	14%
DELTA CORP LTD	747	384	95%	-189	-449	-58%	-220	-453	NA
BAJAJ AUTO LTD	86,206	71,559	20%	12,596	12,662	-1%	11,664	11,382	2%
TRENT LTD	10,204	4,521	126%	2,213	64	3358%	1,386	-481	NA
INFO EDGE (INDIA) LTD	3,517	2,561	37%	1,063	515	106%	1,015	511	99%
INDIAMART INTERMESH LTD	1,824	1,632	12%	832	817	2%	822	698	18%
ABB INDIA LTD*	17,784	16,122	10%	1,689	1,214	39%	1,200	855	40%
PIDILITE INDUSTRIES LTD	26,263	18,803	40%	5,496	5,126	7%	3,747	3,564	5%
INDIAN HOTELS COMPANY LTD	7,284	2,567	184%	728	-1,503	NA	-1,125	-2,454	NA
3M INDIA LTD	8,485	6,958	22%	1,006	1,193	-16%	642	750	-14%
BHARAT FORGE CO LTD	16,066	8,815	82%	4,553	1,660	174%	2,818	826	241%
BURGER KING INDIA LTD	2,454	967	154%	256	3	8433%	-202	-377	NA
AAVAS FINANCIERS LTD #	2,095	1,560	34%	1,231	927	33%	921	662	39%
BHARTI AIRTEL LTD	2,83,264	2,57,850	10%	1,38,105	1,16,420	19%	11,340	-7,632	NA

\* indicates CY end - So Q2 FY22 = Q3 CY21

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

^ Sales EBIT and PAT

\*\* For Alchemy High Growth, Alchemy High Growth Select Stock & Alchemy Leaders Portfolios

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