

-INVEST-



Investment Matters

September 2022



EQUITY OUTLOOK

Markets Showing Inherent Strength

Indian markets remained strong through August 2022 and we continue to be bullish on markets. The breadth of the current rally, with mid and smallcaps outperforming, reinforces our confidence. We believe that investors should look through near-term volatility and ensure that their long-term allocation to equities remains stable. Timing the markets remains risky and holding back in anticipation of a correction may turn out to be a suboptimal strategy. We continue to minimise cash and aim to deploy fresh inflows generally within a month.

Equity Markets in August 2022

	Aug-22	Performance (%)			
		1M	3M	6M	1Y
Major Indian indices					
Sensex	59,537	3.4%	7.1%	5.8%	3.4%
Nifty	17,759	3.5%	7.1%	5.7%	3.7%
CNX-100	18,112	4.1%	8.0%	6.4%	4.3%
CNX-500	15,325	4.5%	8.5%	7.1%	5.3%
Mid-cap and Small-cap Indices					
BSE Mid-cap	25,408	5.6%	9.8%	8.8%	6.5%
BSE Small-cap	28,651	5.9%	8.6%	7.5%	6.4%
CNX Mid-cap	31,482	6.2%	11.3%	11.5%	10.8%
CNX Small-cap	9,622	4.9%	4.5%	-2.3%	-6.2%

	Aug-22	Performance (%)			
		1M	3M	6M	1Y
NSE sector indices					
CNX Bank	39,537	5.5%	11.4%	9.2%	8.5%
CNX Auto	13,217	5.4%	14.1%	22.2%	31.7%
CNX Realty	463	2.7%	12.5%	6.1%	19.8%
CNX Infrastructure	5,128	4.8%	5.1%	6.9%	8.9%
CNX Energy	28,105	8.0%	9.6%	16.1%	38.5%
CNX FMCG	43,821	3.1%	13.2%	23.4%	10.9%
CNX Pharma	12,699	-0.6%	0.8%	-1.8%	-11.5%
CNX IT	28,408	-2.6%	-4.3%	-16.1%	-17.8%

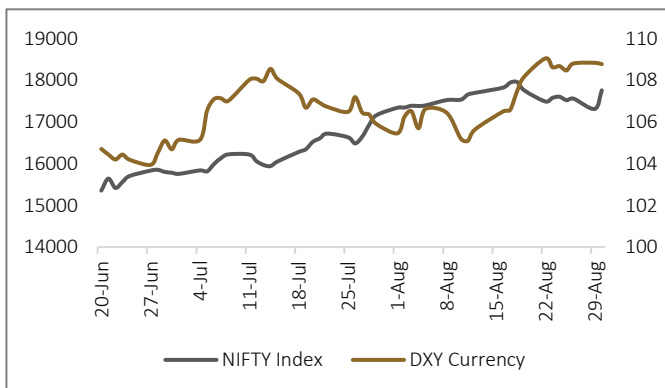
Source: NSE, BSE

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Powering Through Tightening

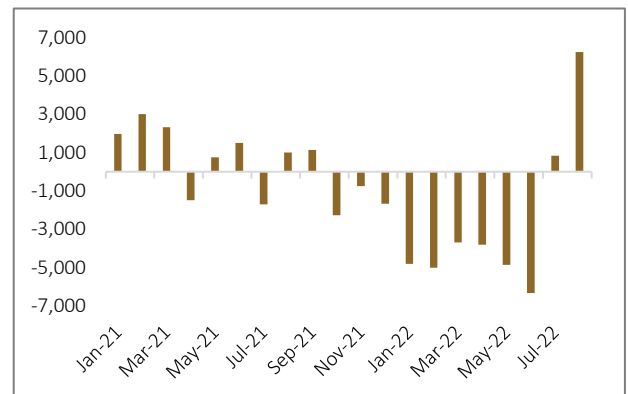
Global and local financial conditions have been tightening through the last few weeks; with greater intensity since the cautious speech by Fed Chairman Jerome Powell at Jackson Hole on 26-Aug 2022. The Fed and the RBI have continuously tightened through CY22 and the DXY has rallied strongly. Nevertheless, the Indian markets have rallied by 17% since 20-Jun 2022, with better breadth than any of the other mini-rallies in CY22.

Nifty holds up despite DXY strength



Source: Bloomberg, Alchemy Capital

FPI net investments (US\$ mn)



Source: Kotak Institutional Equities Research, SEBI, Alchemy Capital

This counter-intuitive move is an illustration of the challenges in predicting short-term movements in the broader market. The biggest positive, of course, has been the abatement of FPI selling in the markets, which was probably front-loaded in 1HCY22 in anticipation of continued Fed tightening - incremental rates hikes are thus not affecting flows to the same extent.

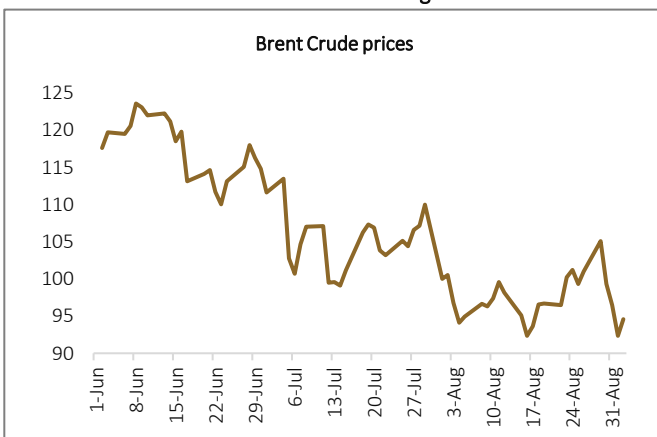
EQUITY OUTLOOK

Positive Fundamental Triggers

The headwinds of global tightening are being offset by multiple positives on the domestic macro:

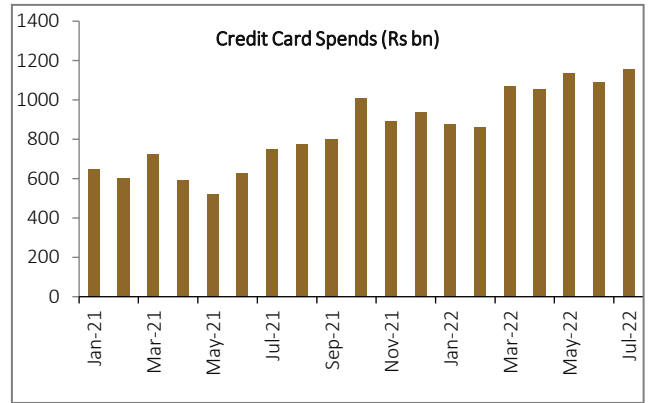
- Consumer demand remains strong, despite high inflation. Mass market products are still struggling, but the premium markets seem to be growing across categories, with autos making a strong comeback in FY23. One of the strongest evidence is from the surge in credit card spends, some of which is coming from high-contact services segments like travel and tourism.
- Global commodity prices are steady-to-weak, led by global oil prices. This should help moderate headline inflation in 2HFY23, and also give companies breathing room to improve margins, hold prices or invest for growth.
- The capex revival continues. The outlook for government spending remains bright, especially with the buoyancy in tax revenues that is coming through. Private capex is also kicking in, led by a combination of strong underlying demand, continued export opportunities and favourable policy conditions.
- The rupee has been holding firm, despite the DXY strength. As we discussed in our [last month blog](#), the rupee has a strong long-term correlation with equities and its relative strength is expressing itself in the resilience of the broader equity markets.

Oil and commodities trending down



Source: Bloomberg, Alchemy Capital

Surge in consumer spending

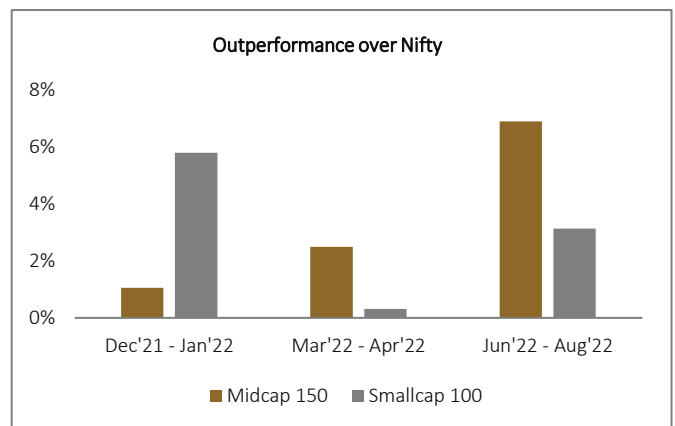


Source: RBI, Ambit Capital, Alchemy Capital

Breadth of the Rally

The breadth of the latest of three mini-rallies in CY22, has been notable. The midcap and smallcap indices have significantly outperformed the Nifty in the mini rally since 20 June 2022, and the gap seems to be trending upwards. The stronger participation from off-index stocks is, in our view, part of a longer-term trend. As we enter a sustained period of steady growth for the Indian macro, the markets are unlikely to be concentrated like in the decade ending 2020.

Small and Midcap indices outperforming



Source: Bloomberg, Alchemy Capital

EQUITY OUTLOOK

Earnings Review

The 1QFY23 earnings season was largely positive, and reinforced the positive momentum in the markets.

- Top-line growth remained strong, though coloured by a weak base. The two-year CAGR is still somewhat muted, indicating that the economy has probably still not returned to full potential after COVID. We think that the momentum will continue to improve through FY23 on the back of strong consumer demand and continued revival of capex.
- Margins pressures continued this quarter. This should start bottoming out from here. The worst of the commodity price impact seems to have been absorbed over two quarters in 1HCY22, and companies dealt with it by a combination of cost-cutting and price hikes. That cycle seems to be approaching the end.
- The results from financials were exceptionally strong. Top-line returned with loan growth and fees rebounding, whereas credit costs were unusually low, given the risk aversion since the pandemic and aggressive provisions through FY21/FY22. PAT growth was hurt by one-off bond losses, and should start normalising from 2QFY23.

Strong Earnings Season

Non-financials							
1QFY23	Revenue growth		EBITDA margin			PAT	
	y/y	q/q	Reported	y/y chg	q/q chg	y/y	q/q
Nifty	38.10%	3.11%	16%	-356bps	-207bps	7%	-19%

Financials (NBFCs and Banks) Change in % Points							
1QFY23	Revenue growth		Credit costs			PAT	
	y/y	q/q	Reported	y/y chg	q/q chg	y/y	q/q
Nifty	4%	-8%	0.16%	-27 bps	-5bps	34%	-13%

All Companies							
1QFY23	Revenue growth		EBITDA growth			PAT	
	y/y	q/q	Reported	y/y chg	q/q chg	y/y	q/q
Nifty	34.61%	1.92%	19%	-455bps	-242bps	14%	-17%

Source: Spark Capital, Alchemy Capital

MARKET INSIGHTS

Alchemy's 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 - Aug 2022 - YouTube](#)

2. Interviews :

- Mr. Seshadri Sen in an interaction with ET Now : [Watch the video](#)

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Q1 FY23 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies** which have published their results for Q1 FY23 :

Scrip	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q1FY23	Q1FY22	% chg	Q1FY23	Q1FY22	% chg	Q1FY23	Q1FY22	% chg
ABB INDIA LTD	20,525	14,250	44%	1,988	948	110%	1,471	683	115%
ANGEL ONE LTD	6,865	4,745	45%	2,527	1,692	49%	1,815	1,214	50%
AVENUE SUPERMARTS LTD	1,00,381	51,831	94%	10,082	2,242	350%	6,429	954	574%
AXIS BANK LTD #	1,23,830	1,11,188	11%	58,870	61,863	-5%	41,253	21,602	91%
BAJAJ AUTO LTD	77,689	72,166	8%	12,970	11,198	16%	11,733	10,612	11%
BAJAJ ELECTRICALS LTD	12,291	8,569	43%	748	6	13254%	411	-250	NA
BAJAJ FINANCE LTD	92,830	67,430	38%	62,575	37,073	69%	25,963	10,024	159%
BAJAJ FINSERV LTD	92,830	67,430	38%	62,575	37,073	69%	25,963	10,024	159%
BARBEQUE-NATION HOSPITALITY LTD	3,149	1,020	209%	705	-178	NA	152	-426	NA
BHARAT FORGE LTD	28,515	21,077	35%	4,278	4,503	-5%	1,645	1,536	7%
BLUE DART EXPRESS LTD	12,933	8,662	49%	2,672	1,591	68%	1,188	313	280%
DELTA CORP LTD	2,503	759	230%	875	-276	NA	571	-289	NA
DIVI'S LABORATORIES LTD	22,545	19,606	15%	8,467	8,521	-1%	7,020	5,571	26%
DIXON TECHNOLOGIES (INDIA) LTD	28,551	18,673	53%	1,001	479	109%	454	182	150%
EASY TRIP PLANNERS LTD	876	313	180%	416	178	134%	331	154	115%
EICHER MOTORS LTD	33,258	19,428	71%	8,311	3,630	129%	6,107	2,371	158%
FINE ORGANIC INDUSTRIES LTD	7,477	3,576	109%	2,146	520	313%	1,598	359	345%
HDFC BANK LTD #	2,58,697	2,32,976	11%	1,53,678	1,51,371	2%	91,960	77,297	19%
HDFC LIFE INSURANCE COMPANY @	19,040	15,610	22%	Nil	Nil	Nil	5,100	4,080	25%
ICICI BANK LTD #	1,78,752	1,49,316	20%	1,03,089	88,944	16%	69,049	46,160	50%
INFOSYS LTD	3,44,700	2,78,960	24%	78,640	74,320	6%	53,600	51,950	3%
JUBILANT FOODWORKS LTD	12,403	8,790	41%	3,045	2,115	44%	1,010	626	61%
KPIT TECHNOLOGIES LTD	6,857	5,674	21%	1,332	981	36%	854	602	42%
L&T TECHNOLOGY SERVICES LTD	18,737	15,184	23%	4,010	3,177	26%	2,742	2,162	27%
LARSEN & TOUBRO INFOTECH LTD	45,228	34,625	31%	8,308	6,477	28%	6,335	4,963	28%
MARUTI SUZUKI INDIA LTD	2,52,863	1,67,987	51%	19,121	8,211	133%	10,128	4,408	130%
MAX HEALTHCARE INSTITUTE LTD	10,663	10,002	7%	2,644	2,702	-2%	1,728	1,469	18%
MPHASIS LTD	34,112	26,908	27%	6,000	4,893	23%	4,019	3,397	18%
NAVIN FLUORINE INTERNATIONAL	3,975	3,265	22%	991	778	27%	745	559	33%
PI INDUSTRIES LTD	15,432	11,938	29%	3,456	2,489	39%	2,624	1,872	40%
PRAJ INDUSTRIES LTD	7,299	3,337	119%	526	299	76%	413	216	91%
RELIANCE INDUSTRIES LTD	21,93,040	13,99,490	57%	3,79,970	2,75,870	38%	1,79,550	1,22,730	46%
SUNDRAM FASTENERS LTD	14,101	11,124	27%	2,255	2,005	13%	1,360	1,196	14%
SYNGENE INTERNATIONAL LTD	6,445	5,945	8%	1,762	1,619	9%	739	773	-4%
TATA ELXSI LTD	7,259	5,583	30%	2,382	1,500	59%	1,847	1,134	63%
TATA MOTORS LTD	7,12,278	6,55,354	9%	24,127	52,427	-54%	-50,066	-44,509	12%
TITAN CO LTD	89,750	30,040	199%	11,960	1,370	773%	7,850	200	3825%
TVS MOTOR COMPANY LTD	73,157	46,893	56%	9,053	4,151	118%	3,054	-106	NA
UNITED SPIRITS LTD	24,191	17,217	41%	3,723	1,885	98%	2,662	555	380%
VARUN BEVERAGES LTD	49,548	24,498	102%	12,506	5,708	119%	6,142	3,183	93%
VIP INDUSTRIES LTD	5,906	2,062	186%	1,026	129	696%	691	25	2631%

Source: Alchemy Capital

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, EBDITA is not shown for Life insurance companies

** For Alchemy High Growth, Alchemy High Growth Select Stock

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