

EQUITY OUTLOOK

The Market continues to be strong...

October 2019 was another strong month for equities, with the Nifty rising 3.5% on the back of a 4% rally in September. A notable feature was that the Nifty midcap outperformed the Nifty, rising by 4.9%. The sectoral performance remained tilted towards Autos and FMCG, with banks slightly underperforming.

The market has responded to a series of pro-cyclical regulatory and policy measures over the last 2-3 months – deep interest rate cuts, the corporate tax rate cut and decisive moves on privatisation. On Nov 6, 2019, the government announced the contours of a real estate package announced earlier. We feel that this is a well-timed intervention as the sector is in a negative spiral with the liquidity and solvency crisis feeding into each other. This intervention could break that spiral, execution risks notwithstanding.

The government measures will take time to impact aggregate demand and growth. The concurrent indicators for growth remain weak – IIP, core sector or even the high-frequency indicators like auto sales. Some of these data points, though, are incrementally improving – one example is car sales. We do expect that the consumption recovery should begin in early CY2020. The investment cycle could take longer to revive.

This weakness is reflected in the earnings data for 2QFY19. Sales growth for Nifty companies (those which have published results as on 31 Oct 2019) has been sluggish though PAT growth has accelerated because of the tax rate cuts. This divergence will widen further in 3QFY20 because DTA adjustments were a drag on the 2Q profits. From CY20, multiple factors should play out to help revive the flagging topline – lower rates, monsoons, some reinvestment of the tax bonanza by the corporates.

We remain positive on the markets and continue our usual pace of deployment of fresh money. We remained focused on our stock-picking philosophy: high-growth companies with strong balance sheets, healthy cash-flow conversion, elevated return ratios and clean corporate governance records. We believe that this is a good time to invest for a 2-3 year horizon from a structural perspective.

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The following table summarises the performance of portfolio companies having so far declared the results for Q2 FY20-

Name	Sales (Rs Mn)			EBIDTA (Rs Mn)			PAT (Rs Mn)		
	Q2FY20	Q2FY19	% chg	Q2FY20	Q2FY19	% chg	Q2FY20	Q2FY19	% chg
BAJAJ FINANCE LTD	39,991	27,079	48%	-	-	-	15,063	11,952	26%
BAJAJ FINSERV LTD	1,42,242	96,984	47%	-	-	-	12,037	7,040	71%
AVENUE SUPERMARTS LTD	59,490	48,725	22%	5,154	3,896	32%	3,334	2,257	48%
HDFC BANK LIMITED	1,91,038	1,57,790	21%	-	-	-	63,450	50,057	27%
SUNDRAM FASTENERS LTD	7,668	9,986	-23%	1,380	1,758	-22%	711	1,107	-36%
TITAN CO LTD	46,616	45,672	2%	5,223	4,979	5%	3,117	3,301	-6%
BANDHAN BANK LTD	18,893	14,986	26%	-	-	-	9,718	4,279	127%
AXIS BANK LTD	99,976	79,105	26%	-	-	-	-1,121	7,896	-114%
VARUN BEVERAGES LTD	17,397	11,657	49%	3,257	2,112	54%	807	423	91%
HINDUSTAN UNILEVER LTD	98,520	92,340	7%	24,430	20,190	21%	18,480	15,250	21%
L&T TECHNOLOGY SERVICES LTD	14,021	13,475	4%	2,832	2,727	4%	2,058	2,039	1%
UNITED SPIRITS LTD	72,819	71,250	2%	4,156	4,429	-6%	2,246	2,587	-13%
DELTA CORP LTD	2,008	2,014	0%	879	845	4%	589	481	22%
BAJAJ ELECTRICALS LTD	10,918	15,984	-32%	238	799	-70%	-330	341	-197%
ZEE ENTERTAINMENT ENTERPRISE	21,220	19,759	7%	6,929	6,757	3%	4,133	3,861	7%
QUESS CORP LTD	26,503	23,947	11%	1,614	1,473	10%	606	539	12%
GODREJ CONSUMER PRODUCTS LTD	26,082	26,418	-1%	5,749	5,385	7%	3,871	2,961	31%
ASIAN PAINTS LTD	50,507	46,155	9%	9,548	8,447	13%	8,263	4,923	68%
MAHINDRA CIE AUTOMOTIVE LTD	18,685	19,811	-6%	2,092	2,536	-18%	612	916	-33%
GREAVES COTTON LTD	4,900	4,951	-1%	681	733	-7%	492	494	0%
CONTAINER CORP OF INDIA LTD	17,387	16,389	6%	4,255	4,033	6%	-3,220	2,278	-241%
DISHMAN CARBOGEN AMCIS LTD	4,498	4,324	4%	1,283	1,133	13%	412	440	-6%
BAJAJ AUTO LTD	77,073	80,363	-4%	12,781	14,141	-10%	14,024	11,525	22%
RAMCO CEMENTS LTD	12,824	11,413	12%	2,609	2,049	27%	1,682	1,145	47%
ICICI BANK LTD	1,22,517	95,741	28%	-	-	-	6,550	9,089	-28%

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