

# Investment Matters

September 2020



## EQUITY OUTLOOK

### *Market looking for macro cues*

The markets continued to be strong with the Nifty rallying 3% in August, and the improved breadth evident in NSE Midcap (up 7.8%) and NSE Smallcap (up 11.5%) both outperforming. Despite the markets looking through the 1Q GDP contraction of 23.9%, macro trends and earnings visibility will be the key to how markets hold up from here. We remain selective and cautious, and focus on three key pillars of our investment philosophy – focus on leaders and strong businesses, keep the portfolio diversified and be selective with banking stocks.

### **The GDP print**

The markets looked through the unprecedented 1QFY21 GDP contraction of 23.9% for a number of reasons:

- The GDP print is backward looking, and the manifestation of the weak growth has already been seen in corporate earnings – this was not new information to the market.
- The 1Q earnings trends had already captured this information. Ex-financials, Nifty companies reported a topline contraction of 34%, though aggressive cost control resulted in EBITDA contraction of just 28%. The markets are looking through these weak numbers and valuing stocks on a more normalised FY22 outlook.
- The linkage between GDP growth and corporate earnings has been weakening over time. Index weights are now skewed towards market leaders and strong businesses which gain market share in bad times.
- Liquidity flows into the market continue to be strong, aided by supportive monetary policy from the global central banks and the RBI.

Going forward, however, growth and earnings recovery will play more important role, as the relief rally that began in March starts to flag.

**Progress on normalisation.** In the short-term, the market will track the progress on normalisation of economic activity. There was positive momentum through June and July but the pace slowed during August. September is likely to be tepid due to lockdowns in parts of the country. It is also notable that the progress in smaller towns and rural areas have stalled because of the rapid spread of CoVid-19 in the hinterland. The continued spread of the virus remains a major worry and a hindrance to the normalisation of the economy – that is one metric we will continue to watch.

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**Some positives emerging.** There is a sharp bounce-back in wholesale auto sales with some companies reporting growth over last year. This is, however, dispatches to dealers and not retail sales, but reflects the confidence that manufacturers have in a strong festive season after two years of weakness. Consumer durable sales have also been strong, though some of it has been a manifestation of pent-up demand.

**Financial stability.** The RBI's timely measures has ensured that financial stability has been unaffected by the overall macro turmoil. Public finances, however, is emerging as a risk. The weakness in revenues has put both central and state government finances under pressure, and states now must resort to market borrowings to make up the GST shortfall. The RBI has managed to cap bond yields with direct intervention via "Operation Twist". Their firepower, however, is finite and continued pressure on the deficits could create challenges for financial stability, which would spill over to the equity markets at some stage. This is a risk we have to be vigilant about.

In summary, we see the broader markets taking a pause till growth trends become clearer. There will, however, continue to be opportunities in select sectors and are focusing on bottom-up stock-picking in this environment. An additional challenge is that quality names have seen strong valuation expansion in this rally. We, however, believe that quality companies with strong businesses and balance sheets could enjoy unprecedented premium valuations given the low interest rates, strong liquidity and lack of options for investors.

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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. Blogs – Aug 2020

- RBI Steps In, Near-Term Risks Abate  
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## Q1FY21 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies\*\* in Q1FY21 :

Stock	Sales ( Rs Mn)			EBITDA ( Rs Mn)			PAT ( Rs Mn)		
	Q1FY21	Q1FY20	% chg	Q1FY21	Q1FY20	% chg	Q1FY21	Q1FY20	% chg
3M India Ltd	3,462	8,045	-57%	-484	1,480	-133%	-425	901	-147%
ABB India Ltd	9,858	15,222	-35%	501	1,442	-65%	168	697	-76%
AIA Engineering Ltd	5,803	7,333	-21%	1,235	1,686	-27%	1,293	1,395	-7%
Asian Paints Ltd	29,227	51,047	-43%	4,843	11,579	-58%	2,339	6,620	-65%
Avenue Supermarts Ltd	38,332	57,805	-34%	1,089	5,959	-82%	496	3,353	-85%
Bajaj Auto Ltd	29,485	75,650	-61%	4,085	11,982	-66%	5,280	11,257	-53%
Bajaj Electricals Ltd	6,077	12,978	-53%	-208	750	-128%	-272	174	-256%
Bajaj Finance Ltd	41,521	36,949	12%				9,623	11,953	-19%
Bajaj Finserv Ltd	117,968	102,187	15%				12,152	8,453	44%
Bayer Cropscience Ltd	12,278	9,504	29%	3,253	2,018	61%	2,517	1,353	86%
Berger Paints India Ltd	9,308	17,165	-46%	921	3,052	-70%	196	1,765	-89%
Bharti Airtel Ltd	239,387	207,379	15%	106,392	84,926	25%	-5,460	-13,136	NA
Britannia	34,207	27,004	27%	7,170	3,947	82%	5,428	2,595	109%
Coromandel International Ltd	32,132	21,307	51%	4,125	1,953	111%	2,506	626	300%
Deepak Nitrite Ltd	6,745	10,510	-36%	1,883	2,654	-29%	990	1,316	-25%
Delta Corp Ltd	484	1,937	-75%	-330	677	-149%	-282	421	-167%
Divi'S Laboratories Ltd	17,278	11,399	52%	7,001	3,933	78%	4,921	2,724	81%
Dr Reddy'S Laboratories Ltd	44,175	38,435	15%	11,129	7,267	53%	5,793	6,628	-13%
Dynamatic Technologies Ltd	1,926	3,766	-49%	200	593	-66%	-169	102	-267%
Garware Technical Fibres Ltd	103	232	-56%	8	43	-81%	6	30	-81%
HDFC Asset Management Company Ltd	4,115	5,044	-18%	3,143	3,934	-20%	3,024	2,918	4%
HDFC Bank Ltd #	197,407	182,646	8%				66,586	55,682	20%
Hindustan Unilever Ltd	104,060	99,840	4%	26,440	26,470	-0.1%	18,730	16,909	11%
ICICI Bank Ltd #	154,224	111,628	38%				31,487	19,080	65%
ICICI Lombard General Insurance Ltd \$	22,191	23,850	-7%				3,981	3,098	29%
ICICI Prudential Life Insurance Ltd@	8,230	14,700	-44%				2,010	3,090	-35%
IPCA Laboratories Ltd	15,344	10,782	42%	5,873	1,987	196%	4,447	1,294	244%
Kotak Mahindra Bank Ltd #	44,974	44,777	0.4%				12,449	13,602	-8%
L&T Technology Services Ltd	12,947	13,475	-4%	2,059	2,727	-24%	1,172	2,039	-43%
Multi Commodity Exchange Of India Ltd	1,227	1,108	11%	763	591	29%	564	437	29%
Muthoot Finance Ltd #	15,139	12,171	24%				8,408	5,300	59%
Nestle India Ltd *	30,215	29,828	1%	7,494	6,892	9%	4,975	4,478	11%
Pidilite Industries Ltd	8,778	20,168	-56%	664	4,437	-85%	268	2,929	-91%
Reliance Industries Ltd	912,380	1,623,530	-44%	168,750	213,150	-21%	132,480	101,410	31%
SBI Cards #	19,210	20,023	-4%				3,933	3,456	14%
Sundram Fasteners Ltd	2,679	9,056	-70%	53	1,758	-97%	-235	931	-125%
Syngene International Ltd	4,216	4,209	0%	1,245	1,211	3%	580	720	-19%
Tata Consultancy Services Ltd	389,200	398,470	-2%	10,622	11,712	-9%	7,049	8,153	-14%
Tata Consumer Products Ltd	27,139	23,924	13%	4,827	3,509	38%	3,276	1,737	89%
Tata Elxsi Ltd	4,139	3,738	11%	1,061	819	30%	689	488	41%
Titan Company Ltd	19,790	51,511	-62%	-2,530	5,734	-144%	-2,930	3,647	-180%
Trent Ltd	3,030	8,239	-63%	-691	1,764	-139%	-1,840	579	-418%
United Breweries Ltd	12,643	47,117	-73%	-944	3,323	-128%	-1,145	1,647	-170%
United Spirits Ltd	10,302	22,184	-54%	-776	3,951	-120%	-1,403	1,974	-171%
Varun Beverages Ltd *	16,402	28,105	-42%	3,777	7,879	-52%	1,408	4,069	-65%
V-Mart Retail Ltd	795	4,551	-83%	-44	599	-107%	-336	176	-291%

\* indicates CY end - So Q1FY20 = Q2CY20

# indicates Net Interest Income + Other income 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

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

Source-Alchemy Research

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