

Investment Matters

August 2021



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EQUITY OUTLOOK

Market regaining momentum

July '21 was another flat month for the indices (Nifty +0.3 %) with interesting internals: small- and mid- caps outperformed with IT, consumers and healthcare the key sectoral leaders at the expense of financials and metals. The momentum, however, returned towards the end of the month. We remain constructive on the broader markets with tailwinds from the post-lockdown recovery, the strengthening investment cycle and earnings momentum driving it. Our focus remains on quality names with strong balance sheet, with a bias towards cyclicals.

	Jul-21	Performance (%)			
		1m	3m	6m	1Y
Major Indian indices					
Sensex	52,587	0.2%	7.8%	13.6%	39.8%
Nifty	15,763	0.3%	7.7%	15.6%	42.3%
CNX-100	16,040	0.5%	8.4%	16.7%	42.9%
CNX-500	13,664	1.4%	10.5%	20.9%	51.2%
Mid-cap and Small-cap Indices					
BSE Mid-cap	23,087	2.4%	13.7%	27.7%	67.8%
BSE Small-cap	26,787	6.2%	23.6%	48.9%	105.7%
CNX Mid-cap	27,815	3.1%	15.0%	33.0%	79.8%
CNX Small-cap	10,522	8.1%	22.8%	46.6%	110.0%

Source: Bloomberg

NSE sector indices	Jul-21	Performance (%)			
		1m	3m	6m	1Y
CNX Bank	34,584	-0.5%	5.5%	13.1%	59.8%
CNX Auto	10,049	-5.2%	4.2%	2.4%	38.0%
CNX Realty	399	15.9%	28.8%	30.4%	98.3%
CNX Infrastructure	4,432	2.1%	9.4%	20.7%	40.6%
CNX Energy	18,934	-4.5%	5.0%	17.2%	23.7%
CNX FMCG	36,052	-0.1%	7.2%	8.8%	16.8%
CNX Pharma	14,425	0.8%	7.1%	18.5%	29.4%
CNX IT	30,480	4.5%	18.8%	23.7%	68.7%

Source: Bloomberg

EQUITY OUTLOOK

Post-Covid recovery

We are seeing a gradual opening up of the economy as the second wave now seems to be receding. This has driven momentum in some sectors such as – banks, retail, and travel. We do see some opportunities in quality names in these sectors but remain selective and cautious for a few reasons.

- The opening-up will be more gradual than the pre-Diwali phase last year, as governments will be more cautious given the ferocity of the second wave. An example is the reluctance of the Maharashtra government to open vulnerable venues such as cinemas and theatre. While some pent-up demand will undoubtedly play out, it may be more gradual than in CY20.
- One uncertainty is how consumer sentiment plays out. The second wave had a much bigger impact on health and many middle- and upper-class families were affected by the tragedy. That may slow consumption propensity when the economy unlocks – we have to keep an eye on trends in each category.
- Raw material inflation remains a challenge for most consumer-related sectors. The sharp rally in global commodities have forced most companies to absorb some of the margin impact and there appears to be no immediate respite. This headwind will be a factor for consumer company earnings for at least a couple of more quarters.

We see the short-term rally in some of these opening-up beneficiaries continuing for a while. We remain focused on the quality names in these segments, which can withstand the risks we highlighted above. Our pivot towards cyclical, however, is not affected by these short-term trends.

Earnings trends

Earnings for 1QFY22 have been resilient through this quarter, despite the negative effects of the second wave of Covid-19. The y/y comparisons are coloured by a weak base, but the 2-year trends are positive with PAT growth at 16%, despite 3% topline growth. The margin performance is particularly heartening, in the context of the gross margin pressures (-800 bps y/y) from rising commodity prices. The resilience of banks and NBFCs to the second wave has also been a significant positive.

EQUITY OUTLOOK

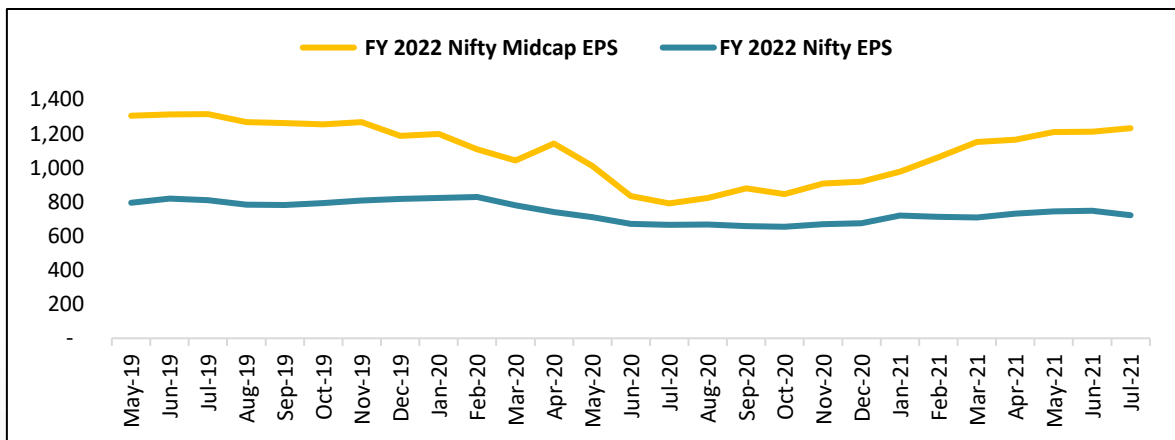
Non-financials 25 companies												
1QFY22	Revenue growth			Gross margins			EBITDA margin			PAT		
	y/y	q/q	2y cagr	Reported	y/y chg	q/q chg	Reported	y/y chg	q/q chg	y/y	q/q	2y cagr
Nifty	51%	-8%	3%	58%	-8%	1%	19%	0%	0%	254%	-6%	18%

Financials - 7 (Banks and NBFCs)												
1QFY22	Revenue growth (NII or NII+other income)			Cost-income			Credit costs			PAT		
	y/y	q/q	2y cagr	Reported	y/y chg	q/q chg	Reported	y/y chg	q/q chg	y/y	q/q	2y cagr
Nifty	10%	-3%	11%	37%	4%	-1%	0.5%	0.1%	0%	31%	-6%	15%

All 34 companies												
1QFY22	Revenue growth			EBITDA growth			PAT					
	y/y	q/q	2y cagr	Reported	y/y chg	q/q chg	y/y	q/q	2y cagr			
Nifty	46%	-8%	3%	22%	34%	-7%	203%	-8%	16%			

Source: Spark Capital, Company filings, updated till 3 August 2021

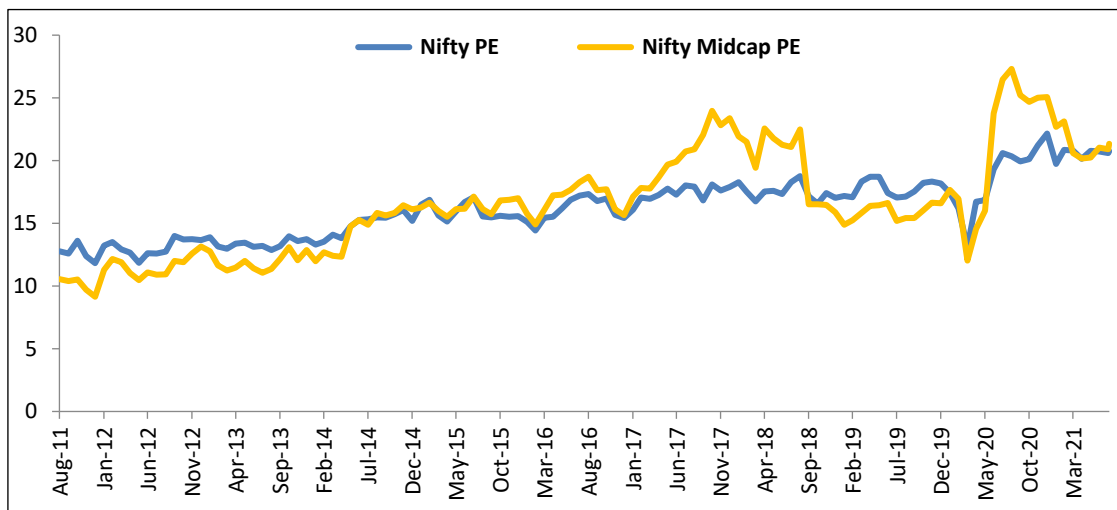
There has been, however, an impact on FY22 earnings estimates, and the upward revision momentum has reversed since May'21. This is mainly an adjustment for the 1Q sluggishness and the trend should now start to stabilise as the economy opens up. The pressure, however, has been asymmetrically felt by the large-caps – the mid-cap Nifty earnings remains resilient. This is driving some of the mid-cap outperformance of the last month.



Source: Bloomberg, Kotak Institutional Equities

EQUITY OUTLOOK

The momentum in midcap earnings is visible in how the relative valuations are playing out. After trading at a persistent discount through CY19, the midcap index PE is now at parity with the broader Nifty. In a recovering economy, we think that this works largely in favour of midcaps – the alarm bells go off when the premium significantly widens. Given the superior earnings momentum, it is likely that midcaps will outperform for the immediate future. However, midcaps generally carry higher risk, especially on liquidity when the cycle turns. We may increase our exposure to mid-caps, but in a measured manner with increased risk guardrails when picking the stocks.



Source: Bloomberg, Kotak Institutional Equities

Unchanged strategy

We are geared towards an upward-trending market. Our cash holdings remain minimal, and we aim to deploy as quickly as we can. We may increase our allocation towards cyclical sectors and mid-caps, while retaining significant guardrails on the quality of companies that we invest in.

Seshadri Sen
Head of Research
Alchemy Capital Management Pvt. Ltd

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 – July 2021

- Broader markets taking a pause

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2. Interviews – July 2021*

- Investors should not get carried away by the hype surrounding IPOs

[Mr. Seshadri Sen to Moneycontrol](#)

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Q1 FY22 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies** which have published their results so far in 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)	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	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	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 INS COMPANY LTD @	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
EICHER MOTORS LTD	73,860	30,792	140%	11,198	4,085	174%	10,612	5,280	101%
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
MULTI COMMODITY EXCHANGE	1,089	1,227	-11%	582	762	-24%	398	564	NA
TATA CONSULTANCY SERVICES	4,54,110	3,83,220	18%	1,26,640	1,00,250	26%	90,080	70,050	29%
TATA COMMUNICATIONS LTD	41,028	44,029	-7%	9,861	10,418	-5%	2,961	2,578	15%
INDIAMART INTERMESH LTD	1,816	1,531	19%	886	733	21%	879	741	19%
QUESS CORP LTD	29,896	24,094	24%	1,469	1,297	13%	462	322	43%
AAVAS FINANCIERS LTD #	1,592	1,218	31%	919	692	33%	599	501	20%
INFOSYS LTD	2,78,960	2,36,650	18%	74,320	61,210	21%	51,950	42,330	23%
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 INT LTD	3,265	2,149	52%	778	538	45%	559	530	5%

* 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

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

Source-Alchemy Research

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