

Investment Matters

November 2021



412-8079
1-362-570-6859

EQUITY OUTLOOK

Market Outlook Remains Positive

A volatile October 2021 ended on a weak note, but the market was flat over the month. SMID* sectors underperformed, along with high-beta sectors like commodities. We remain optimistic on the markets given the strong growth rebound, resilient earnings and broadening base of publicly listed companies.

		Performance (%)			
	Oct-21	1m	3m	6m	1Y
Major Indian indices					
Sensex	59,307	0.3%	12.8%	21.6%	49.7%
Nifty	17,672	0.3%	12.1%	20.8%	51.8%
CNX-100	17,881	0.2%	11.5%	20.9%	52.2%
CNX-500	15,087	0.2%	10.4%	22.0%	57.5%
Mid-cap and Small-cap Indices					
BSE Mid-cap	25,278	0.1%	9.5%	24.4%	69.6%
BSE Small-cap	27,983	-0.4%	4.5%	29.1%	88.0%
CNX Mid-cap	30,470	0.3%	9.5%	25.9%	78.5%
CNX Small-cap	10,767	-1.1%	2.3%	25.7%	85.0%

Source: Bloomberg

		Performance (%)			
NSE sector indices	Oct-21	1m	3m	6m	1Y
CNX Bank	39,116	4.5%	13.1%	19.3%	63.7%
CNX Auto	11,297	6.6%	12.4%	17.2%	45.6%
CNX Realty	499	-2.9%	25.1%	61.1%	118.5%
CNX Infrastructure	5,045	0.4%	13.8%	24.5%	61.2%
CNX Energy	23,236	1.7%	22.7%	28.9%	55.1%
CNX FMCG	38,222	-5.5%	6.0%	13.7%	29.9%
CNX Pharma	13,879	-4.1%	-3.8%	3.0%	23.4%
CNX IT	34,409	-1.8%	12.9%	34.1%	64.5%

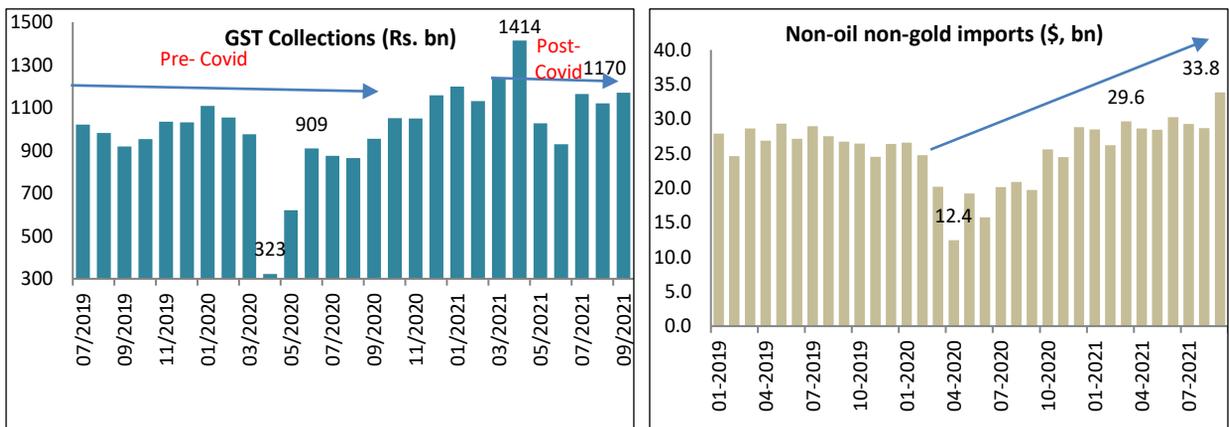
Source: Bloomberg

*SMID – small and midcap

EQUITY OUTLOOK

Economy rebound

We remain positive on the economy and expect a sharp rebound in growth from 2HFY22 onwards. A confluence of positives is driving this recovery and we see a number of signs that this could last.



Source: Spark Capital

- The short-term factor is, of course, the opening up of the economy. Except for small pockets, the incidence of Covid-19 is receding, and local administrations are slowly restoring normality to everyday life. Schools, cinemas, public gatherings are all starting to reopen, driving specific categories of consumption as well as improving consumer confidence. Banks, retail and travel/entertainment are three sectors that benefit from this.
- Our fears that the intensity of the second wave could hurt consumer sentiment seems to have been unfounded. Anecdotal evidence and commentary from managements seem to indicate a strong demand recovery over the festive season. We believe this has been driven by a combination of strong income growth for formal sector workers and higher savings from the 5-6 quarter period of lockdowns. The demand recovery has been tilted towards higher-income groups – we think this should become more broad-based by FY23 as the recovery becomes more balanced.

EQUITY OUTLOOK

- Inflation remains a pebble in the shoe. Companies are getting more aggressive in passing on input costs and this should accelerate after the festive season passes. Demand for premium products will be relatively unaffected, but this is a stress point for bottom-of-pyramid consumers. We see down-trading for a few more quarters. The key to a turnaround is for income recovery to filter down the income strata – a recovery in capex and real estate would be a key enabler for that.

Earnings

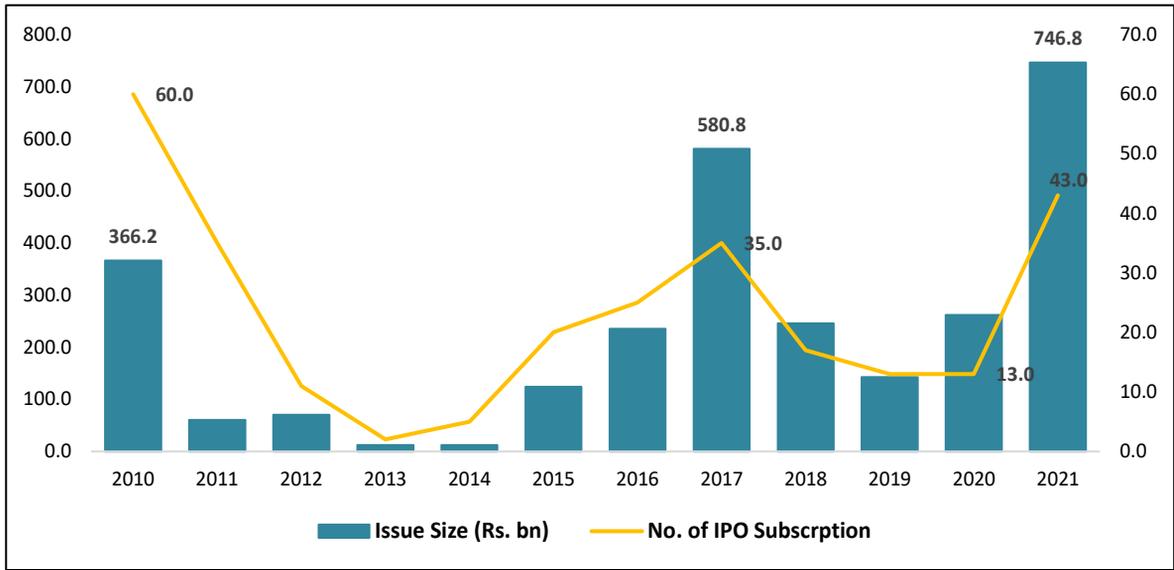
The earnings season for 2QFY22 is still under way and we will have a full analysis by next month. Our preliminary thoughts are these:

- **Growth recovery** - 2Q is a seasonally weak quarter for many sectors but the recovery has still surprised most analysts. True, there was a base effect in play, but the absolute numbers seemed to have been strong, reinforcing our positive outlook on the demand bounce-back. Supply-chain stresses, especially in auto, has left some of this demand unfulfilled, however.
- **Acute margin pressures** - Many consumer companies took the higher commodity prices on the chin, this quarter. Some have taken remedial measures with price hikes, especially as the festive season draws to a close. We see continued gross margin pressures across the board as commodity prices remain elevated.
- **Bank asset quality** - A notable feature has been the turnaround in asset quality for most banks. The post-covid surge in credit costs appears to be over and done with, and banks are looking ahead with more confidence. The larger, high-quality banks, seem to have over-provided and this could lead to a collapse in credit costs in FY23.

The rush of IPOs continued unabated in CY21

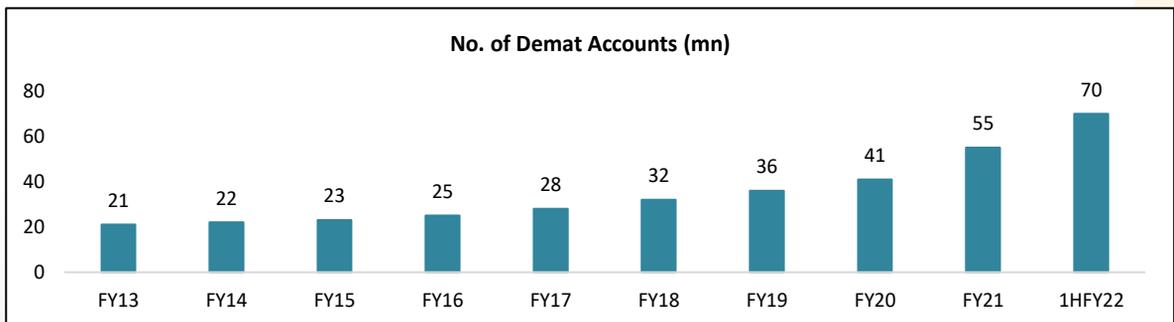
The rush of IPOs on FY23 continues unabated, with companies from diverse sectors coming to the market. This has, we believe, created some volatility in the market but it has some positives too. An IPO glut has a multi-faceted impact on markets.

EQUITY OUTLOOK



Source: Spark Capital

- **Market diversification** - The IPO glut has brought new categories of companies to the market, new-age internet being the most prominent. This gives public market investors the opportunity to participate in emerging trends of the broader economy, helping diversify portfolios and hedge risks.
- **New investors** - An IPO glut usually triggers the entry of new investors to the market. This has been the case in FY22 as well. Of course, some of these investors may drop off when the market corrects, but the net impact is still a positive. This is an important catalyst to broaden India's underpenetrated capital markets.



Source : CDSL & NSDL

EQUITY OUTLOOK

- **Liquidity impact temporary** - There have been some worries that the IPO glut could have triggered a secondary market sell-off and impact broader market returns. Even if it were the case, we think this would be temporary. The broader market direction is driven by both liquidity and earnings, and the issuance of more paper usually does not disrupt a medium-term trend.
- **Invest selectively** - We are selective in investing in newly listed companies. The attraction is of the opportunity to participate in new frontiers of the economy, but the risk is that new companies have no track record, and it takes a while for the markets to get used to the management. We do not stay away, but do not chase IPOs either.

The biggest risk remains a third wave of Covid-19. The overall trend has been positive for the last few months (barring a few states) but we have to remain vigilant for a post-festival surge or new variants coming through. The pace of vaccination also remains robust, though the coverage of double-dosed population is still a work-in-progress.

Our strategy remains unchanged. We are minimising cash and are continuing to focus on quality companies with strength in improving return ratios and cash generation. We are emphasising three broad sectors – cyclicals, exporters and beneficiaries of the economy opening up.

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. Market Views : [Market Views - October 2021 - YouTube](#)

2. Blogs : Markets Continue To Rally : [Read More](#)

3. Interviews :

- Mr. Hiren Ved on ET Now : [Mr. Hiren Ved to ET Now](#)
- Mr. Hiren Ved on ET Now Swadesh : [Mr. Hiren Ved to ET Now Swadesh](#)
- Mr. Hiren Ved on BloombergQuint : [Mr. Hiren Ved to BloombergQuint](#)
- Mr. Hiren Ved in an interview with ET Now: [Mr. Hiren Ved with ET Now](#)

Hyperlinks to other websites made available here are to be accessed at the sole risk of the user; the content, accuracy, opinions expressed, and other links provided by these resources are not investigated, verified, monitored, or endorsed by Alchemy.

DISCLAIMER

General Risk factors

- All products / investment approach attract various kinds of risks. Please read the relevant Disclosure Document/ Client Agreement carefully before investing.

General Disclaimers

- The information and opinions contained in this report/ presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete.
- Information and opinions contained in the report/ presentation are disseminated for the information of authorized recipients only and are not to be relied upon as advisory or authoritative or taken in substitution for the exercise of due diligence and judgement by any recipient.
- The information and opinions are not, and should not be construed as, an offer or solicitation to buy or sell any securities or make any investments.
- Nothing contained herein, including past performance, shall constitute any representation or warranty as to future performance.
- The client is solely responsible for consulting his/her/its own independent advisors as to the legal, tax, accounting and related matters concerning investments and nothing in this document or in any communication shall constitute such advice.
- The client is expected to understand the risk factors associated with investment & act on the information solely on his/her/its own risk. As a condition for providing this information, the client agrees that Alchemy Capital Management Pvt. Ltd., its Group or affiliates makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, direct or indirect, arising from the use of this information.
- This document and its contents are proprietary information of Alchemy Capital Management Pvt. Ltd and may not be reproduced or otherwise disseminated in whole or in part without the written consent.

Regulatory Disclosures:

- All clients have an option to invest in the above products / investment approach directly, without intermediation of persons engaged in distribution services.
- Performance related information provided hereinabove are not verified by SEBI.