

-INVEST-



Investment Matters

December 2022



EQUITY OUTLOOK

Markets at New Highs – Onwards and Upwards

The Nifty touched a new lifetime high on 1-Dec-22 and we see a breakout from here on the broader indices. The stars seem to be aligning for equities as headwinds from the synchronous global tightening dissipate over the next 2-3 quarters. On the other hand, we believe that the domestic economy remains strong with both consumption and investments starting to fire. We see a multi-year earnings growth cycle and the richly valued markets reflect that. Our preference is for mid-caps and cyclicals, and we are keeping an eye on the valuations of the stocks where we are building positions. We advise investors to remain fully invested and avoid aggressive cash calls at this point in the cycle.

Equity Markets in November 2022

	Nov-22	Performance (%)			
		1M	3M	6M	1Y
Major Indian indices					
Sensex	63,100	3.9%	6.0%	13.6%	10.6%
Nifty	18,758	4.1%	5.6%	13.1%	10.5%
CNX-100	18,920	3.7%	4.5%	12.8%	9.5%
CNX-500	15,946	3.4%	4.1%	12.9%	8.9%
Mid-cap and Small-cap indices					
BSE Mid-cap	25,951	2.3%	2.1%	12.1%	5.1%
BSE Small-cap	29,520	2.4%	3.0%	11.9%	5.7%
CNX Mid-cap	32,038	1.9%	1.8%	13.3%	8.1%
CNX Small-cap	9,976	3.0%	3.7%	8.3%	-6.4%

Source: NSE, BSE

	Nov-22	Performance (%)			
		1M	3M	6M	1Y
NSE sector indices					
CNX Bank	43,231	4.7%	9.3%	21.8%	21.1%
CNX Auto	13,232	-1.1%	0.1%	14.2%	24.8%
CNX Realty	450	2.6%	-2.8%	9.3%	-7.7%
CNX Infrastructure	5,447	4.1%	6.2%	11.7%	9.8%
CNX Energy	27,354	2.6%	-2.7%	6.7%	19.9%
CNX FMCG	45,537	2.8%	3.9%	17.6%	21.8%
CNX Pharma	13,144	-0.5%	3.5%	4.3%	-3.8%
CNX IT	30,392	5.8%	7.0%	2.4%	-13.3%

Source: NSE, BSE

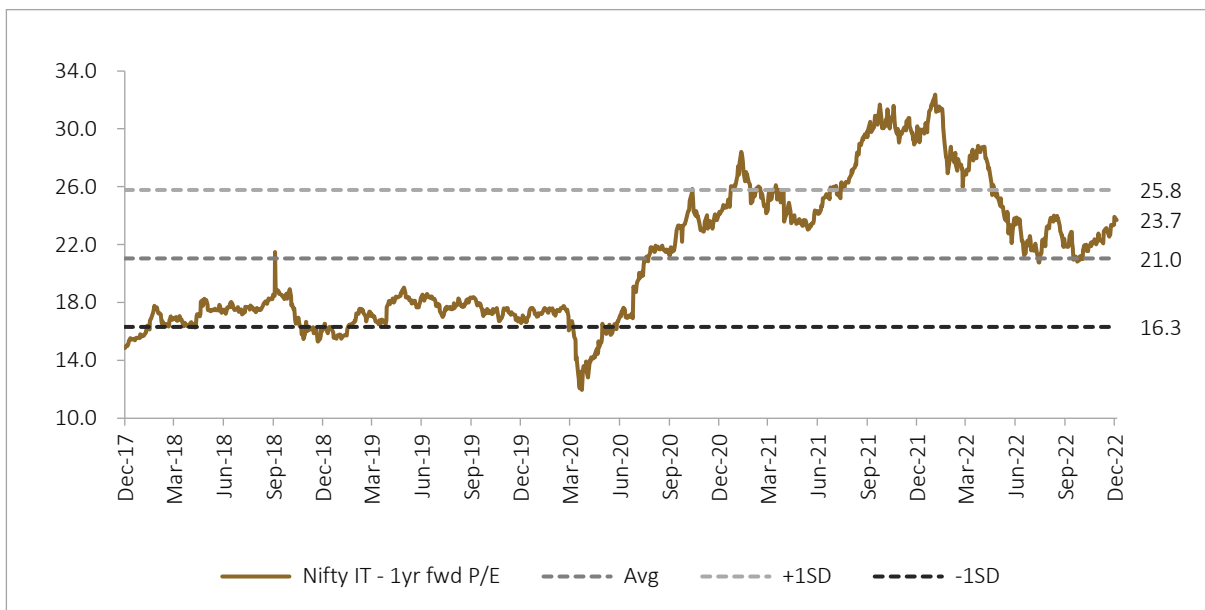
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The Changing Global Scenario

The big positive is that we expect global financial conditions to be more stable in the coming quarters. The rate cycle may peak in early CY23, with some lead-lag across countries depending on inflation data. Consequently, the sharp appreciation in the global dollar index (DXY) should also stabilise. A repetition of the sharp FPI selloff of 1HCY22 is, thus, unlikely and should create favourable conditions for the Indian equity markets. The only near-term risk is a recovery in the China markets that could divert flows away from India – this, however, will be less disruptive than the dislocation of early 2022.

The global challenges shift, however, from the financial to the real economy. Investors should prepare for a significant slowdown in the US and Europe, which could lead to some stress for both manufacturing and service exporters. There are three mitigants, however

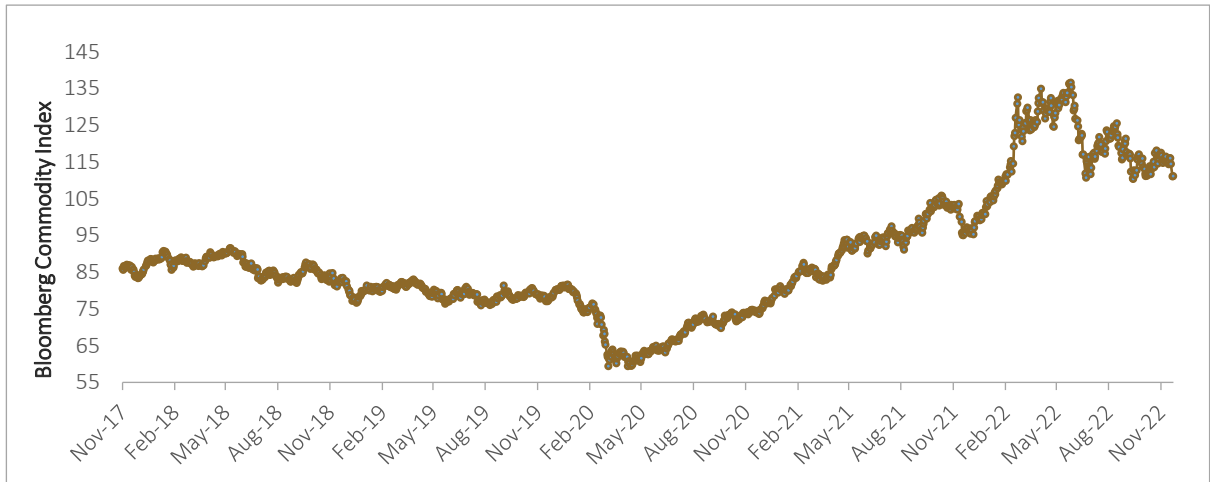
1. Stock prices for one of the biggest export sector, information technology, have already priced this in. The NSE IT Index has underperformed the Nifty by 30% in CY22 and the froth in forward valuations has already melted. Earnings revisions have also been downgraded for many export-oriented sectors.



Source: Ambit Capital Research, Data as of December 05, 2022

2. We think the slowdown should help ease global commodity prices. Oil prices are already flat over the last 5 months and a recession/slowdown in the West would put pressure, supply cuts notwithstanding. This helps India's macro as well as eases some of the acute margin pressures.

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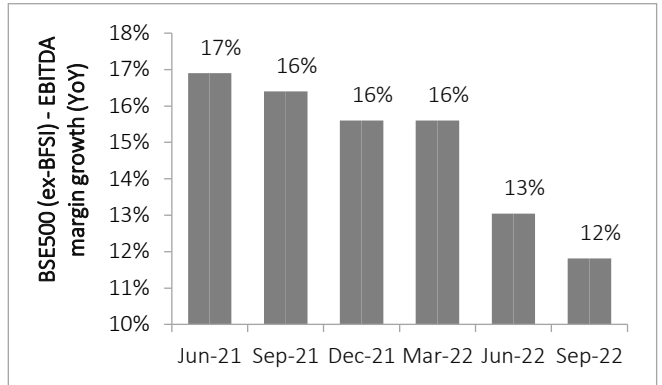
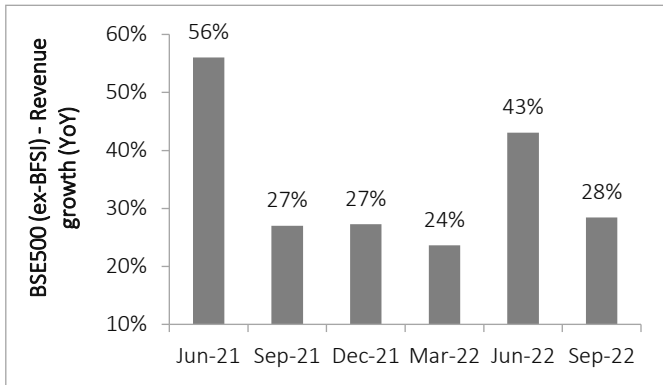
Source: Bloomberg

3. Global supply chain diversification should help India through the slowdown. India has been helped by global producers prioritising the need to reduce dependence on a single country (mainly China) after the supply chain disruption in the post-Covid world. In our view, this is a structural driver of Indian exports that should partly soften the impact of a Western-world recession.

Key Domestic Drivers

- We see strong consumer demand through the next 2-3 years. The bounce in consumption in FY23 is not just a one-time post-Covid event. Rising per-capita income and aspiration levels should continue to fuel demand and premiumisation trends across the discretionary space. The growth in FY24, however, may be tempered by the high base effect in FY23.
- We remain constructive (pun intended!) on the capital spending cycle in India. This has been led by public spending, which should continue strongly given the comfortable state of India's finances and the impending election cycle leading up to the national vote in 2024. We see a multi-year growth cycle for capital goods and infra companies.
- We see margins having bottomed out in 2QFY23 with a massive drop in EBITDA margins. Going forward, commodity prices could peak, and companies could start clawing back some benefits from price hikes. Other cost pressures like wages are also starting to ease, at the margin.

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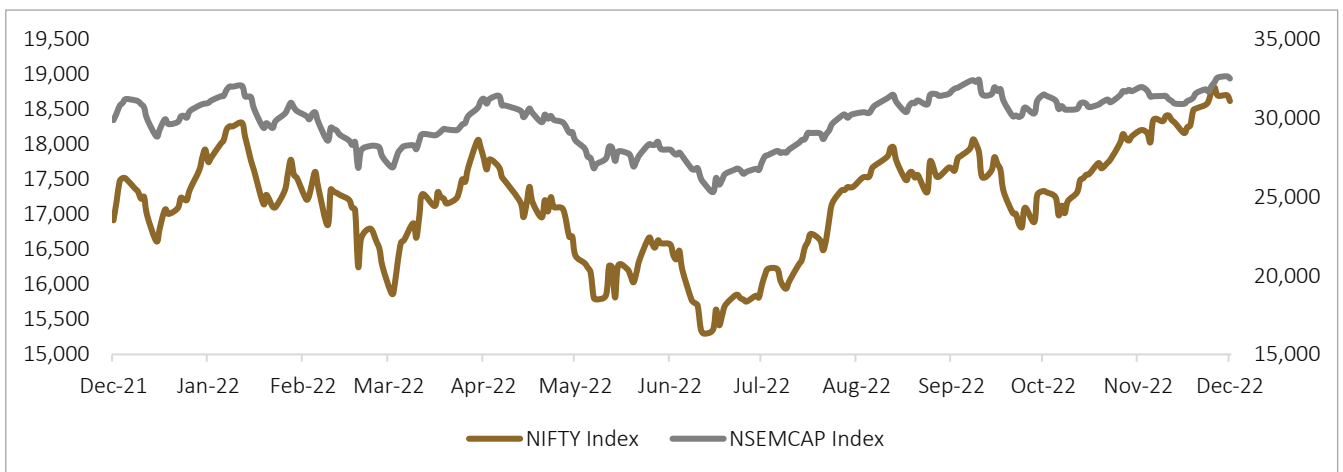


Source: Ambit Capital Research

Key Market Trends

We remain positive on the equity markets and see a breakout after a year of struggle, especially after the market made a new lifetime high on 01-Dec-22. We see three clear trends in the market internals

1. Midcaps have been relatively weaker than large-caps since Sep-22, as the broader market corrected. We see that reversing and expect mid-caps to significantly outperform from a 2-3 year perspective, for two reasons: a) We see a broad-based economic recovery which should incrementally benefit mid-caps a little more and b) most large-cap stocks are priced to perfection and have little more to offer than earnings compounding. Of course, there are pockets of overvaluation in the mid-caps (reflected in more expensive indices), so we are being selective in the stocks we buy.



Source: Bloomberg, Data as of December 06, 2022

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2. We see cyclicals outperforming defensives in the next rally. This is not just at a sector level, where we expect sectors like industrials to lead the market over the next 2-3 years. We also expect that intra-sector outperformance will be driven by the more cyclical names – a prime example is financials, where banks that were perceived to be weaker are outperforming the Bank Nifty.

3. Market valuations are elevated, though with good reason. We are amid a multi-year earnings growth cycle with strong balance sheets and limited risk – the market is pricing that in. The implication is, however, that stocks with relatively lower valuations are likely to outperform in this scenario. Within our overall framework of “growth at reasonable price (GARP)”, we will focus on stocks with re-rating potential in our hunt for outperformance.

Quick Take: RBI Rate Hike

- The RBI’s monetary policy committee voted to raise the repo rate by 35bps on 7-Dec-22. This was largely on expected lines. The reiteration of its hawkish stance on liquidity was a slight disappointment, though.
- We believe that we are near the end of the tightening cycle. We do not expect rates to go up by more than 25bps from here and 1QCY23 should see peak interest rates. Liquidity will steadily tighten but we do not see any cause for alarm or any major liquidity-driven accidents. Financial conditions should remain stable.
- Banks will face deposit growth challenges over the next 2-3 quarters, as loan demand continues strongly, and liquidity remains tight. The NIM improvement in 2QFY23 may last for another quarter but deposit repricing will then start putting pressure on margins. Lasting NIM improvement will come mainly from changes in the loan mix.
- We do not think that the rate hikes and liquidity tightening will destabilise growth. The peak rate in this cycle is much lower than historical peaks. The level of liquidity tightness is not acute enough to impact aggregate demand, in our view.

Seshadri Sen
Head of Research
Alchemy Capital Management Pvt. Ltd.

Source: Alchemy Capital

MARKET INSIGHTS

Alchemy Capital'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 - Nov 2022 - YouTube](#)

2. Interviews:

- Mr. Alok Agarwal in an interaction with Mint: [Read the article](#)
- Mr. Seshadri Sen in an interaction with Asian News International: [Read the article](#)
- Mr. Hiren Ved in an interaction with The Week: [Read the article](#)
- Mr. Hiren Ved in an interaction with The Financial Express: [Read the article](#)
- Mr. Seshadri Sen in an interaction with The Economic Times: [Read the article](#)

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Q2 FY23 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies** in Q2 FY23 :

Scrip	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q2FY23	Q2FY22	% chg	Q2FY23	Q2FY22	% chg	Q2FY23	Q2FY22	% chg
MAX HEALTHCARE INSTITUTE LTD	11,371	10,183	12%	3,189	2,704	18%	4,574	1,447	216%
VARUN BEVERAGES LTD *	31,766	23,982	32%	6,990	4,947	41%	3,810	2,401	59%
FSN E-COMMERCE VENTURES LTD	12,308	8,853	39%	611	288	112%	52	12	333%
CE INFO SYSTEMS LTD	763	567	35%	305	261	17%	254	254	0%
BLUE DART EXPRESS LTD	13,253	11,236	18%	2,430	2,752	-12%	936	906	3%
RELIANCE INDUSTRIES LTD	23,00,550	16,76,110	37%	3,47,380	3,02,440	15%	1,36,560	1,36,800	0%
MARUTI SUZUKI INDIA LTD	2,99,218	2,05,389	46%	27,599	8,549	223%	20,525	4,753	332%
GARWARE TECHNICAL FIBRES LTD	3,560	2,818	26%	621	510	22%	478	409	17%
UNITED SPIRITS LTD	29,110	25,076	16%	4,373	4,691	-7%	5,531	2,918	90%
NAVIN FLUORINE INTERNATIONAL	4,192	3,390	24%	938	842	11%	578	632	-9%
TATA CONSUMER PRODUCTS LTD	33,631	30,331	11%	4,338	4,133	5%	3,280	2,680	22%
L&T TECHNOLOGY SERVICES LTD	19,951	16,077	24%	4,218	3,493	21%	2,824	2,300	23%
LARSEN & TOUBRO INFOTECH LTD	48,367	37,670	28%	9,117	7,332	24%	6,793	5,515	23%
MPHASIS LTD	35,198	28,692	23%	6,178	4,980	24%	4,185	3,415	23%
DIXON TECHNOLOGIES INDIA LTD	38,668	28,038	38%	1,452	1,100	32%	771	626	23%
SYNGENE INTERNATIONAL LTD	7,681	6,102	26%	2,351	1,799	31%	1,020	667	53%
PRAJ INDUSTRIES LTD	8,766	5,324	65%	708	492	44%	481	333	44%
PERSISTENT SYSTEMS LTD	20,486	13,512	52%	3,680	2,244	64%	2,200	1,618	36%
KPIIT TECHNOLOGIES LTD	7,448	5,909	26%	1,380	1,041	33%	835	651	28%
TATA ELXSI LTD	7,632	5,953	28%	2,265	1,836	23%	1,743	1,253	39%
ACC LTD *	39,105	36,533	7%	164	7,123	-98%	-874	4,502	NA
ANGEL ONE LTD	7,459	5,381	39%	2,926	1,840	59%	2,136	1,343	59%
PI INDUSTRIES LTD	17,700	13,542	31%	4,319	2,920	48%	3,348	2,296	46%
BHARAT FORGE LTD	18,639	16,066	16%	4,530	4,853	-7%	2,681	3,118	-14%
ICICI BANK LTD @	1,98,417	1,64,869	20%	1,16,803	99,147	18%	75,578	55,110	37%
HDFC BANK LIMITED @	2,86,167	2,50,852	14%	1,73,922	1,58,073	10%	1,06,058	88,343	20%
VINATI ORGANICS LTD	5,663	3,741	51%	1,485	1,010	47%	1,160	814	43%
AXIS BANK LTD @	1,43,014	1,16,987	22%	77,162	59,282	30%	53,298	31,333	70%
EASY TRIP PLANNERS LTD	1,085	437	148%	367	208	76%	282	271	4%
ETHOS LTD	1,777	1,344	32%	260	129	102%	135	27	410%
GREENPANEL INDUSTRIES LTD	4,573	4,219	8%	1,137	1,069	6%	707	622	14%
ABB INDIA LTD *	21,003	17,630	19%	2,110	1,689	25%	1,976	1,199	65%
BAYER CROPSOURCE LTD	14,519	13,651	6%	2,379	2,218	7%	1,626	1,541	6%
DYNAMATIC TECHNOLOGIES LTD	3,237	3,044	6%	476	380	25%	100	-101	NA
AVENUE SUPERMARTS LTD	1,06,383	77,889	37%	8,920	6,686	33%	6,858	4,178	64%
FINE ORGANIC INDUSTRIES LTD	9,192	4,384	110%	2,539	731	248%	2,026	499	306%
SCHAEFFLER INDIA LTD *	17,564	14,876	18%	3,190	2,645	21%	2,154	1,708	26%
INDIAN HOTELS CO LTD	12,326	7,284	69%	2,940	728	304%	1,296	-1,206	NA
AIA ENGINEERING LTD	13,287	8,711	53%	3,120	1,619	93%	2,448	1,376	78%
TRENT LTD	18,136	10,204	78%	2,675	2,213	21%	1,859	1,256	48%
INFO EDGE INDIA LTD	6,041	3,641	66%	1,018	1,010	1%	1,030	73,712	-99%
3M INDIA LTD	9,767	8,401	16%	1,229	922	33%	1,062	642	65%
BARBEQUE NATION HOSPITALITY	3,105	2,209	41%	583	413	41%	71	29	143%
EICHER MOTORS LTD	33,542	21,568	56%	8,036	4,427	82%	6,149	3,434	79%
BAJAJ ELECTRICALS LTD	12,011	12,834	-6%	956	944	1%	602	628	-4%
TITAN CO LTD	87,300	71,700	22%	12,340	9,540	29%	8,570	6,410	34%
BAJAJ FINSERV LTD #	70,013	53,345	31%	44,865	33,048	36%	27,807	14,810	88%
SUNDRAM FASTENERS LTD	14,017	12,423	13%	2,047	2,184	-6%	1,168	1,239	-6%
TVS MOTOR CO LTD	72,192	56,194	28%	7,365	5,629	31%	4,075	2,776	47%
DIVI'S LABORATORIES LTD	18,545	19,875	-7%	6,210	8,181	-24%	4,936	6,065	-19%
BAJAJ FINANCE LTD	70,013	53,345	31%	44,865	33,048	36%	27,807	14,810	88%
ASHOK LEYLAND LTD	82,660	44,579	85%	5,373	1,347	299%	1,993	-830	NA
FEDERAL BANK LTD @	23,714	19,711	20%	12,122	9,121	33%	7,037	4,603	53%
HINDUSTAN AERONAUTICS LTD	51,448	55,512	-7%	16,216	12,397	31%	12,212	8,467	44%

** Portfolio companies includes Alchemy High Growth and Alchemy High Growth Select Stock

Source: Alchemy Capital

*CY companies

Bajaj Finserv Ltd. is a conglomerate of diverse businesses (NBFC/insurance) which we value on sum of parts. The results here are of Bajaj Finance, which is the largest subsidiary by value.

@ Sales = NII + Non-interest income + treasury income , EBITDA = Operating profit

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