

-INVEST-



# Investment Matters

May 2023

## EQUITY OUTLOOK

### Confluence Of Positives, But Risks Remain

The Nifty rallied 4% in Apr-23 on the back of a confluence of positives. The earnings season was on track with no major negative surprises. Domestic financial conditions eased on the back of RBI's surprise pause. Global tailwinds also helped and FPI flows added to the momentum. Reasonable valuations also acted as a catalyst, in our view.

The risks have not abated fully, however. We expect a choppy year and the key would be earnings resilience. Global volatility would also play a factor. We recommend staying invested and deploying fresh money over a short period of time.

#### Equity Markets in Apr-23

	Apr-23	1M	Performance (%)		
			3M	6M	1Y
<b>Major Indian Indices</b>					
Sensex	61,112	3.6%	2.6%	0.6%	7.1%
Nifty	18,065	4.1%	2.3%	0.3%	5.6%
CNX-100	17,904	4.2%	1.7%	-1.9%	2.6%
CNX-500	15,220	4.5%	1.9%	-1.3%	3.0%
<b>Mid-cap and Small-cap Indices</b>					
BSE Mid-cap	25,492	5.9%	3.4%	0.5%	4.4%
BSE Small-cap	28,917	7.3%	2.5%	0.3%	1.1%
CNX Mid-cap	31,795	5.9%	3.6%	1.2%	6.4%
CNX Small-cap	9,673	7.5%	1.8%	-0.1%	-5.7%

Source: NSE, BSE

	Apr-23	1M	Performance (%)		
			3M	6M	1Y
<b>NSE sector Indices</b>					
CNX Bank	43,234	6.5%	6.3%	4.7%	19.8%
CNX Auto	13,189	7.7%	-1.0%	-1.4%	19.1%
CNX Realty	445	14.9%	8.2%	1.5%	0.3%
CNX Infrastructure	5,356	5.2%	5.8%	2.3%	4.5%
CNX Energy	23,735	4.0%	0.1%	-11.0%	-17.0%
CNX FMCG	47,814	4.2%	7.6%	7.9%	25.2%
CNX Pharma	12,614	5.0%	2.1%	-4.5%	-6.3%
CNX IT	27,708	-3.5%	-6.8%	-3.5%	-12.4%

Source: NSE, BSE

## EQUITY OUTLOOK

### Significant Positives in Apr-23

The earnings season has been off to a cautious start, but there were no major negative surprises. The data for the 22 companies (of Nifty) that have reported as of 2-May-23 show weak topline growth and some recovery in sequential margins. Y/y margins remain weak. Financials had a strong quarter but the outlook for FY24 is somewhat muted. We will review the earnings in our next month's blog when all companies have reported.

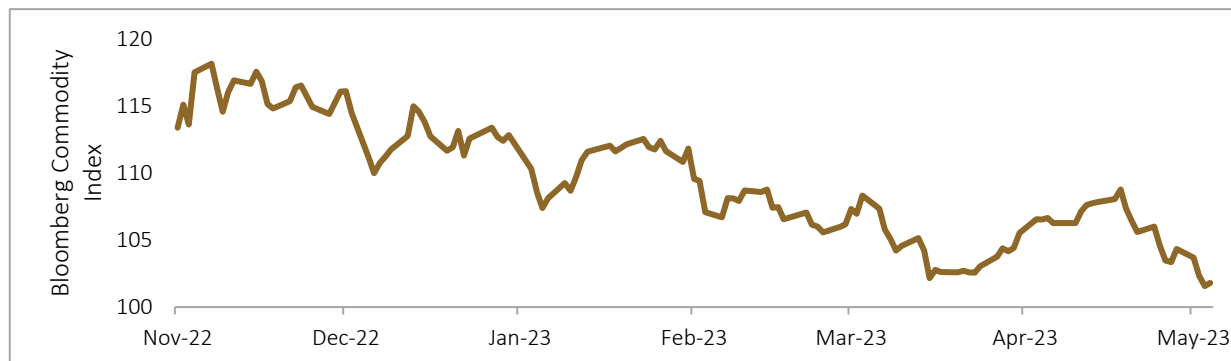
Non-financials						
4QFY23	Revenue growth		EBITDA growth		PAT	
	Y/Y	Q/Q	Y/Y chg	Q/Q chg	Y/Y	Q/Q
Nifty	6%	1%	6%	8%	0%	21%
Financials						
4QFY23	Revenue growth*		PPOP growth		PAT	
	Y/Y	Q/Q	Y/Y chg	Q/Q chg	Y/Y	Q/Q
Nifty	28%	8%	32%	3%	31%	8%
All companies						
4QFY23	Revenue growth		EBITDA growth**		PAT	
	Y/Y	Q/Q	Y/Y chg	Q/Q chg	Y/Y	Q/Q
Nifty	10%	3%	14%	6%	10%	15%

Source: Ambit Capital, Alchemy Capital | Data as on 2-May-23

\* Revenues = NII + other income

\*\* For banks and NBFCs, EBITDA = PPOP

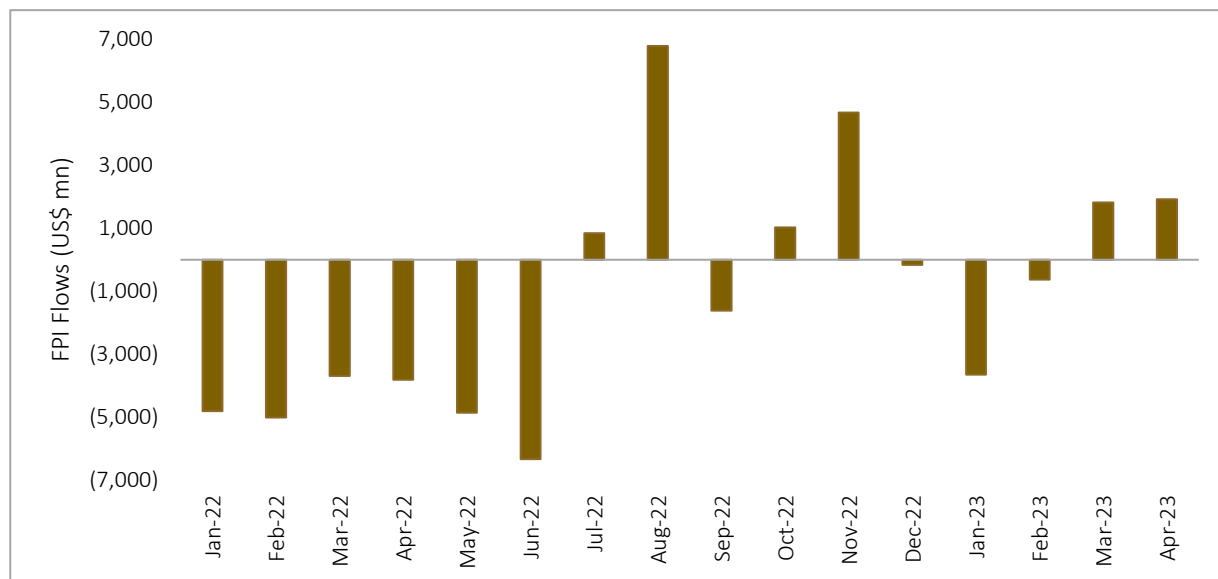
Commodity prices have corrected meaningfully. The Bloomberg Commodity Index is down 10%, led by a 22% correction in crude (since 31-Oct-22). This is hardly surprising as the world economy is steadily weakening on the back of sharp interest rate hikes in CY22. This has a positive impact on the markets – it is good for margins (especially for consumer companies) and should set off a disinflationary trend. The correction may not be one-way as we expect sporadic supply responses, but we do think that there is further scope for the commodities basket to fall.



Source: Bloomberg, Alchemy Capital | The above chart is updated with the data as of 4-May-23

## EQUITY OUTLOOK

FPI flows were strong for a second consecutive month after >12m of sustained weakness. Flows in the derivative market were also robust in Apr-23. As interest rates peak, we expect a turnaround in FPI flows as the extreme risk aversion during rising rates starts to dissipate. However, in the absence of rate cuts in the near term (which is our base case), these flows should remain moderate and start to shoot up when rate cuts begin, probably in CY24.

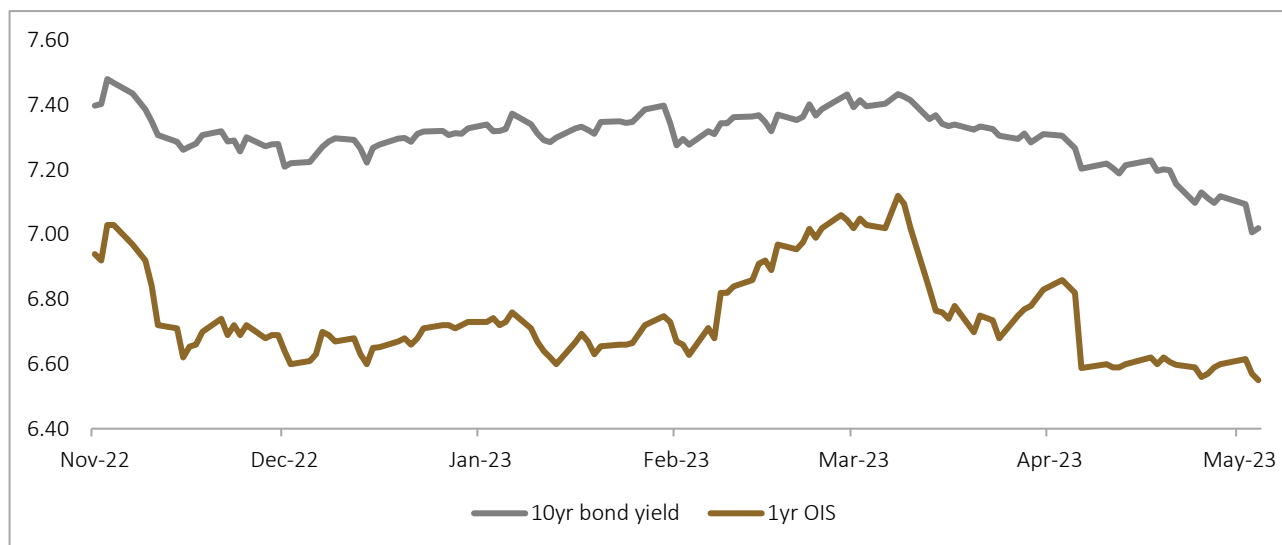


Source: Bloomberg, Kotak Institutional Equities, Alchemy Capital

The US banking crisis took another turn on 2-May-23 when JP Morgan announced its intention to buy the bank. This drove a relief rally in large US financials as the feared contagion effect from a bank failure was now averted. We think that the risks from the US banking system have largely abated with the stressed banks having been taken over without any significant damage to depositors. There is still some residual risk, but the worst part is probably over. The second-order impact –reduced credit availability driving a consumption slowdown – is likely to be muted now that bank failures are averted.

Domestic financial conditions, in our view, considerably eased in Apr-23. The RBI surprised markets by holding rates at its monetary policy committee meeting on 6-Apr-23 and guided that further rate hikes would only come if inflation spiked significantly from here. The RBI held its line on keeping liquidity tight, though. The markets reacted positively to this news with the 10-year bond yield falling 30bps to ~7%. Short term yields also declined with the 1-year OIS declining 24bps. (the yield drops pertain to the period 31-Mar-23 to 28-Apr-23).

## EQUITY OUTLOOK



Source: Bloomberg, Alchemy Capital | The above chart is updated with the data as of 4-May-23

### Key Risks

We expect weakness in domestic consumption in FY24. In consumer discretionary, the post-Covid front-ending of demand seems to be finally impacting topline with a delayed impact. Mass segments seem to be still struggling from the effects of Covid and inflation – the expected recovery keeps getting delayed. The second-order impact could be that companies pass on commodity price benefits to gain market share. This puts the consensus FY24 EPSg of 15% at risk, which is largely dependent on margin recovery.

There is a small risk of a “hard landing” in the US – ie, the economy goes into a deep recession before interest rate cuts start. This, we believe, would trigger a market sell-off as earnings and valuations take a simultaneous hit. The correction would likely be short lived as rate cuts would quickly follow, but the pain would precede the gain. The probability of this is low, however.

## 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 - Apr 2023 - YouTube](#)

2. Interviews:

- Mr. Hiren Ved in an interaction with BQ Prime: [Watch the video](#)
- Mr. Seshadri Sen in an interaction with ET Now: [Watch the video](#)
- Mr. Alok Agarwal in an interaction with The Times of India: [Read the article](#)

## Q4 FY23 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies\*\* which have published their results so far in Q4 FY23 :

Scrip	Sales ( Rs Mn)			EBITDA ( Rs Mn)			PAT ( Rs Mn)		
	Q4FY23	Q4FY22	% chg	Q4FY23	Q4FY22	% chg	Q4FY23	Q4FY22	% chg
BAJAJ FINANCE LTD	77,728	60,610	28%	51,205	39,671	29%	31,578	24,195	31%
RELIANCE INDUSTRIES LTD	21,29,450	20,73,750	3%	3,84,400	3,13,660	23%	1,92,990	1,62,030	19%
ICICI BANK LTD	2,27,545	1,73,420	31%	1,38,264	1,02,929	34%	91,219	70,187	30%
PERSISTENT SYSTEMS LTD	22,545	16,379	38%	4,163	2,812	48%	2,515	2,010	25%
TATA CONSUMER PRODUCTS LTD	36,187	31,754	14%	5,117	4,443	15%	2,686	2,175	23%
SYNGENE INTERNATIONAL LTD	9,944	7,581	31%	3,183	2,412	32%	1,787	1,478	21%
ABB INDIA LTD *	24,112	19,749	22%	2,853	1,877	52%	2,449	797	207%
KPIT TECHNOLOGIES LTD	10,174	6,518	56%	1,943	1,214	60%	1,116	801	39%
INDIAN HOTELS CO LTD	16,254	8,721	86%	5,355	1,590	237%	3,283	742	342%
TRENT LTD	21,828	13,289	64%	2,030	1,346	51%	450	-209	NA
AXIS BANK LTD	1,66,375	1,30,425	28%	91,676	64,660	42%	-57,284	41,178	NA
MAHINDRA CIE AUTOMOTIVE LTD *	24,402	20,608	18%	3,806	2,804	36%	2,200	1,639	34%
SCHAEFFLER INDIA LTD *	16,936	15,675	8%	3,147	3,085	2%	2,194	2,071	6%
CE INFO SYSTEMS LTD	725	570	27%	290	249	17%	283	225	26%
LTIMINDTREE LTD	86,910	43,016	102%	16,037	8,464	89%	11,137	6,370	75%

\* CY Companies

Please note for BFSI, Sales = NII + Non-interest income + treasury income ,EBITDA = Operating profit

\*\* For Alchemy High Growth, Alchemy High Growth Select Stock

Source: Alchemy Capital

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