

-INVEST-



Investment Matters

August 2023

EQUITY OUTLOOK

Markets Touching New Highs

Robert Oppenheimer, the American theoretical physicist was not alone in admiring the Hindu text, the Bhagavad Gita. Henry David Thoreau wrote, "In the morning I bathe my intellect in the stupendous and cosmogonical philosophy of the Bhagavad Gita in comparison with which our modern world and its literature seem puny and trivial." Hermann Graf Keyserling, a German Philosopher regarded Bhagavad Gita as "Perhaps the most beautiful work of the literature of the world. Mahatma Gandhi was an ardent follower of the Bhagavad Gita. A. P. J. Abdul Kalam, the 11th President of India, used to read Bhagavad Gita and recite mantras. Sunita Williams, an American astronaut who holds the record for the longest single space flight by a woman who carried a copy of the Bhagavad Gita and Upanishads with her to space, said "Those are spiritual things to reflect upon yourself, life, the world around you and see things another way, I thought it was quite appropriate" while talking about her time in space.

As we start writing the Monthly Newsletter from a new perspective, we thought why not briefly discuss each chapter in the Bhagavad Gita (Gita). So, here's an attempt, it's subjective and we are not experts, we are also learning more as we write.

The first chapter of Bhagavad Gita says: The root cause of all sorrow and suffering in this world is our inability to deal with conflict. That is why the Gita was taught to Arjuna in the middle of a gruesome battlefield, with swords clanging, trumpets roaring and soldiers screaming. Conflict is everywhere, and we have to learn to handle it. The sooner we recognize this universal truth about conflict and its impact, the sooner we can progress in our personal, professional, and ultimately, spiritual journeys.

This is similar to what we experience in the markets perhaps most times with conflicting views and volatility and greed/ fear in the markets.

While it's always best to invest at lower valuations. But over the longer term and investing in good companies has proven to give better returns than trying to time the markets or our investments.

As we write this monthly newsletter for August 2023, we often come across the conflict in the mind that is a good level to invest? Should we book profits and sit in Cash? Should we invest more? What should be the next step? As professional investors, what has worked for us over the years and you may have heard Alchemy's Whole-Time Director & CIO, Hiren Ved say it many times is "underlying earnings and data". So that's what we do, we analyze the data available to us. Here are our thoughts/ analysis below on markets in July 2023 and underlying earnings momentum. This is after humbly accepting the fact that volatility is a constant in the financial markets and that's a conflict one has to face.

EQUITY OUTLOOK

Macro View

	Performance (%)				
	Jul-23	1M	3M	6M	1Y
Major Indian indices					
Sensex	66,528	2.8%	8.9%	11.7%	15.6%
Nifty	19,754	2.9%	9.3%	11.8%	15.1%
CNX-100	19,679	3.0%	9.9%	11.8%	13.1%
CNX-500	17,059	3.8%	12.1%	14.2%	16.3%
Midcap and Smallcap Indices					
BSE Midcap	30,420	5.7%	19.3%	23.4%	26.5%
BSE Smallcap	35,002	7.4%	21.0%	24.1%	29.4%
CNX Midcap	37,721	5.5%	18.6%	23.0%	27.3%
CNX Smallcap	11,703	8.0%	21.0%	23.2%	27.6%

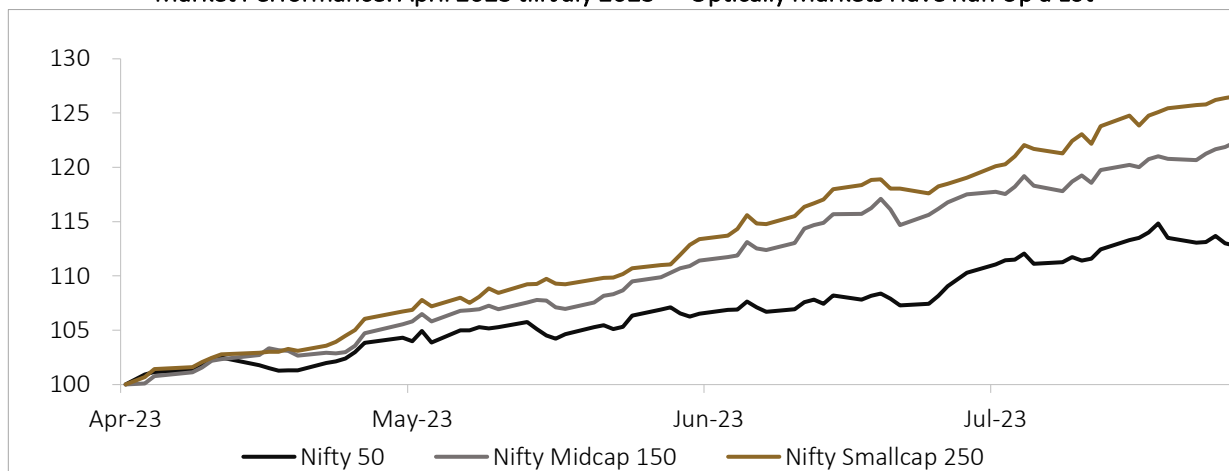
Source: NSE, BSE

Note: Data as of July 31, 2023

The tsunami of foreign portfolio funds to the Indian markets continues unabated. These inflows have led to the rapid conquest of Mount 19k by the Nifty and an assault on Mount 20k.

Nifty Index is up ~13% in FY24 as of July 31, 2023, with Midcaps and Smallcaps gaining ~22% and ~27% respectively during the same period. These returns have made us feel that markets have run up a lot.

Market Performance: April 2023 till July 2023* - Optically Markets Have Run Up a Lot



Source: Bloomberg, Alchemy Capital, Yes Securities

Note: *Data as of July 28, 2023 | Indexing Y-axis to 100 by taking April 2023 as the base period.

EQUITY OUTLOOK

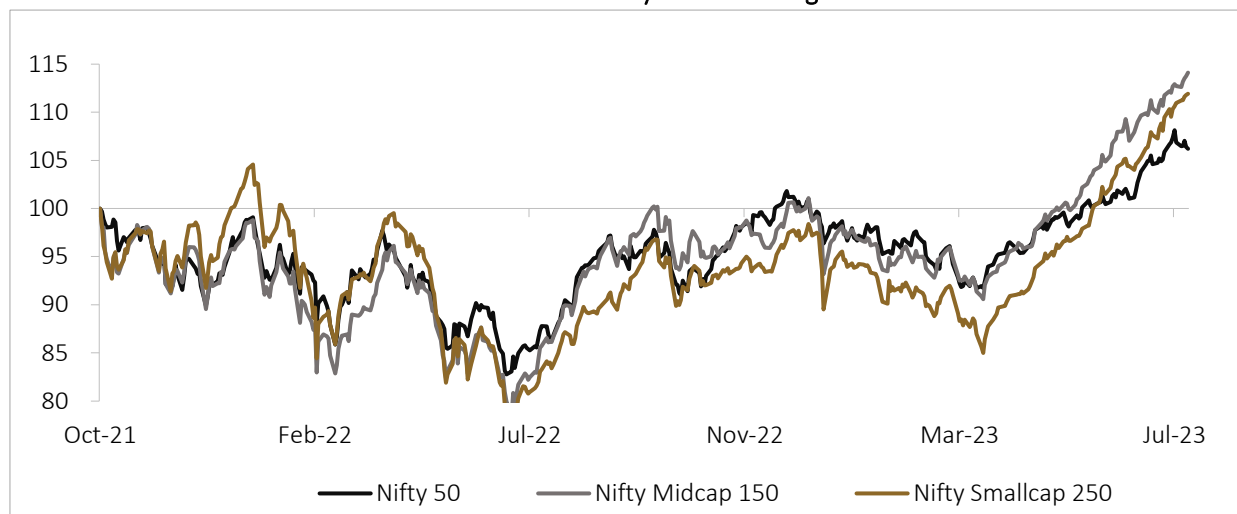
Index	Returns
Nifty 50	13%
Nifty Midcap 150	22%
Nifty Smallcap 250	27%

Source: Bloomberg, Alchemy Capital, Yes Securities

Note: Data as of July 28, 2023

Let's broaden our horizons a little more. The markets peaked around mid-October 2021. Since then, the CAGR return in Nifty is about 3%, Midcap about 8%, and Smallcap about 7%. These numbers do not reflect an overheated market, especially considering double-digit earnings growth.

Market Performance: October 2021 till July 2023* - No Signs of Overheated Market



Source: Bloomberg, Alchemy Capital, Yes Securities

Note: *Data as of July 28, 2023 | Indexing Y-axis to 100 by taking October 2021 as the base period. | Period of October 2021 is considered as it was the beginning of rate-hiking cycle by all global central banks, including Fed and the markets were at their peak during that time.

Index	Returns
Nifty 50	3%
Nifty Midcap 150	8%
Nifty Smallcap 250	7%

Source: Bloomberg, Alchemy Capital, Yes Securities

Note: Period of October 2021 till July 28, 2023

In mid-October 2021, Nifty 1yr fwd P/E was ~22x, whereas in July 2023, it is ~18.7x (close to 17% lower) and it is at same levels as of 5-year average. Similarly, Nifty Midcap 150 Index's 1yr fwd P/E has corrected by ~30% to ~24.7x and Nifty Smallcap 250 Index's 1yr fwd P/E to ~17.3x mostly on account of earnings growth.

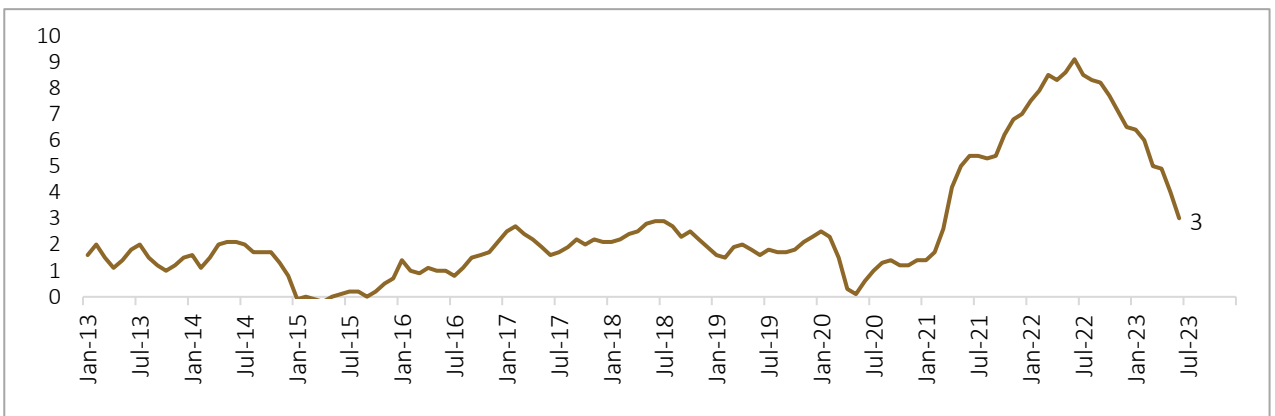
EQUITY OUTLOOK

Period	Nifty 50	Nifty Midcap 150	Nifty Smallcap 250
01-Oct-21	22.15	31.73	20.20
01-Jul-23	18.71	24.77	17.27
5-year average*	18.87	23.82	17.18

Source: Bloomberg, Alchemy Capital, Yes Securities

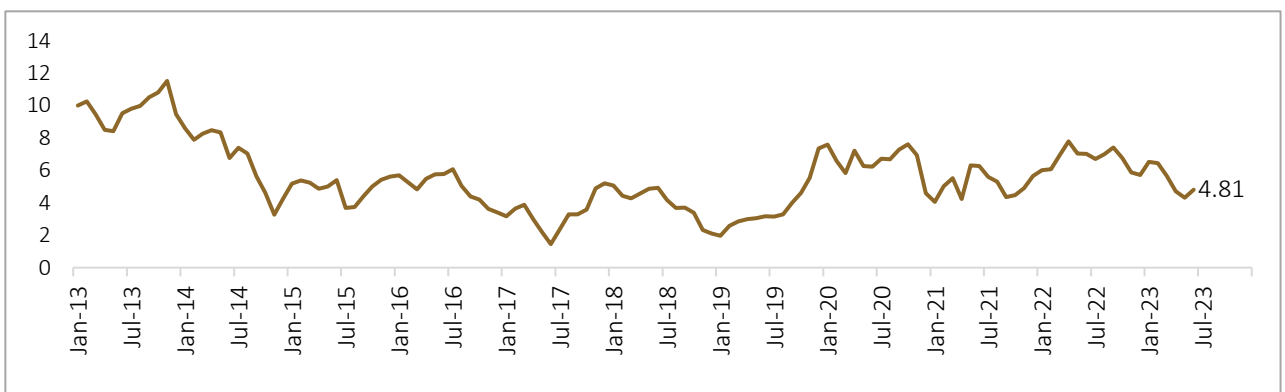
Note: Data is for 1-year forward PE | Period of October 2021, is considered as it was the beginning of rate-hike cycle by all global central banks, including Fed and the markets were at their peak during that time. | *Estimated data provided herein is considered for the period from July 02, 2018, to July 28, 2023.

With inflation showing signs of moderation, we may likely be closer to the end of the rate hike cycle than the beginning. US Inflation has corrected from multi decade high of 9.1% to 3% as of June 2023, quite close to the 2% target of the Federal Reserve.



Source: Spark Institutional Equity Private Limited

Back in India too, CPI inflation has come down sharply from 10-year highs of 11.51% to 4.8% as of July 2023, well within RBI tolerance bands.



Source: Spark Institutional Equity Private Limited

EQUITY OUTLOOK

Sector Specific					
NSE sector indices	Performance (%)				
	Jul-23	1M	3M	6M	1Y
CNX Bank	45,651	2.0%	5.6%	12.3%	21.8%
CNX Auto	15,708	3.7%	19.1%	17.9%	25.2%
CNX Realty	567	9.0%	27.3%	37.7%	25.7%
CNX Infrastructure	6,115	6.6%	14.2%	20.8%	25.0%
CNX Energy	26,854	8.7%	13.1%	13.2%	3.2%
CNX FMCG	52,637	0.8%	10.1%	18.4%	23.9%
CNX Pharma	14,992	8.9%	18.9%	21.3%	17.3%
CNX IT	29,928	1.2%	8.0%	0.6%	2.7%

Source: NSE, BSE

Note: Data as of July 31, 2023

Some Interesting Nuggets on Sectors

Takeaways for Rural Consumption: Hindustan Unilever's continued to underperform due to its disappointing June 2023 quarter results. But a silver lining from its management commentary, not just for the company but for the industry and even the country, is a nascent recovery in India's rural FMCG sales growth. It rose in the June 2023 quarter by around 2%, after declining in all of FY23. While this growth may be partly due to a low base effect, as the year-ago quarter saw a decline, it's still better than if the decline had continued unabated.

It raises the prospect of whether FY24 could be the year of a rural recovery, for the FMCG sector surely but for other consumer sectors as well.

Public sector banks, the battered lot during the better part of the last decade, like Barbies, were the flavour of the season. Over a period of one year, the PSU Bank index has outperformed. This is not without reason, but perhaps it is without restraint.

We believe that the multiple re-ratings of PSU bank shares have been driven by the improvement in asset quality. The argument is that PSU bank valuations have been decimated and their asset quality improvement makes them great bargain picks for investors. That said, PSU Bank's net profit growth and loan growth do not overshadow its historic trend. Granted, quarterly net profit for some PSU banks more than doubled but a lot of it is on account of a drop in provisions, also loan growth has lagged private peers. Even the gross bad loan ratio is way above private sector peers. We must keep in mind that banks did not improve their asset quality metrics entirely by getting their money (loan amount) back. Write-offs and haircuts also have a large share. We want to make sure that structural change takes place.

If we look at a couple of stocks in our portfolio this month:

One stock that raised our expectations like Mission Impossible and then fell off the cliff has been Eicher Motors, we were very confident that Eicher Motors amongst the leading player in the 2W space with its Royal Enfield (RE) motorcycles having ~ 90%+ market share in the Indian mid-size segment, two iconic brands- Classic and Bullet. They had also added more products which were doing well such as Hunter which appealed to a younger audience.

EQUITY OUTLOOK

Bajaj and Hero announced new product launches aimed at this segment with a 10-15% premium over the best selling RE bike. We believe that the competition will affect growth for RE from FY25 as the two peers ramp. How much impact it has is something only time would be able to predict, but from being a monopolistic market it is becoming more competitive. As a result, we had to exit the stock for now.

Among Nifty stocks, buybacks were dominated by IT companies. It is, therefore, a pleasant surprise to see infrastructure and engineering giant L&T announced an INR 10,000 crore buyback. In 2019, L&T announced a buyback worth INR 9,000 crore, but this was rejected by SEBI on the ground of its high debt position at the consolidated level. Since then, the company has improved its financials, reduced its debt-to-equity ratio and exited non-core businesses. L&T's buyback sends a message that not only IT companies but other firms in the manufacturing sector are also enjoying strong cash flow generation.

Another company that was the focus last month has been Tata Motors backed by new products, and strong demand, the company was able to register a 29% year-on-year (YoY) growth in volumes. Its revenues, however, registered a much higher growth of 57% YoY, thanks to the higher realisation on the back of a new product range.

Higher revenue and the softening of raw material prices led JLR to post an EBITDA (earnings before interest, tax, depreciation, and amortisation) margin above 16% which in our view is a commendable performance. The margin expanded by a whopping 960 basis points on a YoY basis.

The company has proposed a scheme of cancellation of DVR shares by offering 7 ordinary shares for every 10 DVR share held by the shareholders; this translated into a ~20% premium to the existing DVR price. Also, this transaction will reduce the total share capital by 4%, making it EPS accretive for all shareholders.

Back to Arjuna's dilemma and the first chapter in the Bhagavad Gita. When confronting the material conflict of battle, Arjuna's rational mind was clear – he was a warrior, and he had entered the battlefield to fight a war against the enemy for a just cause. But eventually his ego – the primitive side of his mind – took control away from his rational mind. It went into "flight" mode. It made him say, it is better to run away and become a monk, than to perform my duty. The inability to reconcile this conflict in his mind led to his mental breakdown in the middle of the battlefield. He could not commit to fighting, and being unable to decide, he wanted to quit.

So then, conflict at the material level, and at the mental level, is pervasive. It is an integral part of life. We cannot escape it. But so what? Shouldn't we just accept this state of affairs?

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 - July 2023 - YouTube](#)

2. Interviews:

- Mr. Hiren Ved in an interaction with CNBC-TV 18: [Watch the video](#)
- Mr. Alok Agarwal in an interaction with ET Markets: [Read the article](#)

Note: 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.

Q1 FY24 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies** whose results are available till 8 Aug 2023 in Q1 FY24:

Scrip	Sales (INR Mn)			EBITDA (INR Mn)			PAT (INR Mn)		
	Q1FY24	Q1FY23	% chg	Q1FY24	Q1FY23	% chg	Q1FY24	Q1FY23	% chg
AIA ENGINEERING LTD	12,396	10,647	16%	3,430	2,472	39%	2,723	1,905	43%
AJANTA PHARMA LTD	10,210	9,509	7%	2,713	2,218	22%	2,081	1,746	19%
AVENUE SUPERMARTS LTD	1,18,654	1,00,381	18%	10,353	10,082	3%	6,588	6,429	2%
AXIS BANK LTD	1,70,460	1,23,830	38%	88,144	58,870	50%	57,971	41,253	41%
BAJAJ FINANCE LTD	84,009	66,404	27%	55,465	42,575	30%	34,369	25,963	32%
BAJAJ FINSERV LTD	84,009	66,404	27%	55,465	42,575	30%	34,369	25,963	32%
BLUE DART EXPRESS LTD	12,376	12,933	-4%	2,009	2,740	-27%	613	1,188	-48%
COFORGE LIMITED	22,210	18,294	21%	3,060	2,886	6%	1,653	1,497	10%
DIXON TECHNOLOGIES INDIA LTD	32,715	28,551	15%	1,319	1,001	32%	672	454	48%
HAVELLS INDIA LTD	48,338	42,445	14%	4,030	3,643	11%	2,871	2,432	18%
HDFC BANK LIMITED	3,28,289	2,58,697	27%	1,87,720	1,53,678	22%	1,19,518	91,960	30%
HDFC LIFE INSURANCE CO LTD	1,16,728	93,961	24%				4,153	3,600	15%
HITACHI ENERGY INDIA LTD	10,401	9,860	5%	243	-137		24	13	80%
ICICI BANK LTD	2,36,617	1,78,752	32%	1,41,391	1,03,089	37%	96,482	69,049	40%
ICICI PRUDENTIAL LIFE INSURANCE	73,748	72,647	2%				2,069	1,557	33%
KPIT TECHNOLOGIES LTD	10,976	6,857	60%	2,139	1,332	61%	1,344	873	54%
L&T TECHNOLOGY SERVICES LTD	23,014	20,062	15%	4,528	4,077	11%	3,111	2,754	13%
LARSEN & TOUBRO LTD	4,78,824	3,58,532	34%	48,686	39,567	23%	24,930	17,021	46%
MAHINDRA CIE AUTOMOTIVE LTD *	23,203	22,160	5%	3,704	3,058	21%	2,139	1,835	17%
NAVIN FLUORINE INTERNATIONAL	4,912	3,975	24%	1,142	991	15%	615	745	-17%
PERSISTENT SYSTEMS LTD	23,212	18,781	24%	3,743	3,333	12%	2,288	2,116	8%
RELIANCE INDUSTRIES LTD	20,75,590	21,93,040	-5%	3,80,930	3,79,970	0%	1,60,110	1,79,550	-11%
SCHAEFFLER INDIA LTD *	18,291	17,488	5%	3,420	3,217	6%	2,373	2,258	5%
SUNDRAM FASTENERS LTD	14,108	14,101	0%	2,264	2,255	0%	1,287	1,380	-7%
SYNGENE INTERNATIONAL LTD	8,081	6,445	25%	2,119	1,728	23%	934	739	26%
TATA ELXSI LTD	8,503	7,259	17%	2,516	2,387	5%	1,890	1,853	2%
TATA MOTORS LTD	10,22,361	7,19,347	42%	1,35,595	31,805	326%	32,028	-50,066	
TITAN CO LTD	1,18,970	94,430	26%	11,250	11,960	-6%	7,560	7,850	-4%
TVS MOTOR CO LTD	72,179	60,087	20%	7,638	5,995	27%	4,677	3,205	46%
UNITED SPIRITS LTD	26,678	24,191	10%	7,135	3,723	92%	4,767	2,662	79%

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

* Companies following CY for reporting results

Please note for BFSI companies, Sales = NII + Non-interest income + treasury income, EBITDA = Operating profit, For Insurance Companies; Sales = Total Premium

Source: Alchemy Capital

DISCLAIMER

General Risk Factors:

All products / investment approach attract various kinds of risks. Please read the relevant Disclosure Document/ Client Agreement/ Offer Documents (includes Private Placement Memorandum and Contribution 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.
- The information and opinions contained in this document may contain “forward-looking statements”, which can be identified by the use of forward-looking terminology such as “may”, “will”, “seek”, “should”, “expect”, “anticipate”, “project”, “estimate”, “intend”, “continue” or “believe” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, including those set forth under the Disclosure Document/Offer Documents, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements.

Regulatory Disclosures:

- All clients have an option to invest in the above products / investment approach directly, without intermediation of persons engaged in distribution services.
- This document, its contents, especially the Performance related information, is not verified by SEBI or any regulator.

Alchemy Capital Management Pvt. Ltd.

B-4, Amerchand Mansion, 16 Madame Cama Road, Mumbai 400 001

Ph: +91-22-66171700 | Website: www.alchemycapital.com | Email: contactus@alchemycapital.com

CIN: U67120MH1999PTC119811 | SEBI Regn No.: INP000000365