



**ALCHEMY**  
CAPITAL MANAGEMENT

**-INVEST-**



# Investment Matters

November 2023

## EQUITY OUTLOOK

### Deepening Domestic Financial Markets

Human beings have the privilege of acquiring knowledge and passing it on to the next generation and that is how all the different branches of knowledge have grown. Electronics, medicine etc did not evolve in one day, not by one person, nor in one lifetime. It required a couple of centuries to reach where we are today. Again and again, the revival of knowledge, of tradition happens. Tradition means it is an experience of millions of people over millions of years. In the same way contemporary yoga has been refined, reformed and rejuvenated many times over time.

In Chapter 4 of the Bhagavad Gita, Shri Krishna gives the *paramparaa*, (or the tradition), of the knowledge of the Gita. He says that he had revealed the same knowledge a long time ago to *Vivasvaan*. (*Vivasvaan* means the sun). The sun then gave this knowledge to Manu. Manu is the original ancestor and is considered to be the first human being from whom all humans originated, like Adam in the Bible. Hence humans are called *Manushya*. Manu then gave this knowledge to Ikshvaaku, who was the first king of the Solar dynasty or the "*Suryavansh*." Whoever received this knowledge needed to be capable of communicating it to others. It was not enough that this person was just wise. We have always been interdependent on each other to learn and grow in our journeys thus communication was as important as knowledge.

By pointing out the heritage of *Jnyaana Karma Sannyasa Yoga* Shri Krishna constantly reminded Arjuna that this is not a brand-new teaching, it always was a way of life but was lost due to the passage of time.

Getting back to our market discussion, here's how the markets did in October 2023

	Performance (%)				
	Oct-23	1M	3M	6M	1Y
<b>Major Indian Indices</b>					
Sensex	63,875	-3.0%	-4.0%	4.5%	5.1%
Nifty	19,080	-2.8%	-3.4%	5.6%	5.9%
CNX-100	19,035	-2.8%	-3.3%	6.3%	4.3%
CNX-500	16,801	-2.8%	-1.5%	10.4%	8.9%
<b>Midcap and Smallcap Indices</b>					
BSE Midcap	31,245	-3.4%	2.7%	22.6%	23.2%
BSE Smallcap	36,919	-1.7%	5.5%	27.7%	28.1%
CNX Midcap	38,877	-4.1%	3.1%	22.3%	23.7%
CNX Smallcap	12,650	-0.8%	8.1%	30.8%	30.6%

Source: NSE, BSE

Note: Data as of October 31, 2023

## EQUITY OUTLOOK

NSE Sector Indices	Oct-23	Performance (%)			
		1M	3M	6M	1Y
CNX Bank	42,846	-3.9%	-6.1%	-0.9%	3.7%
CNX Auto	15,916	-1.7%	1.3%	20.7%	18.9%
CNX Realty	603	4.8%	6.4%	35.5%	37.5%
CNX Infrastructure	6,095	-2.4%	-0.3%	13.8%	16.4%
CNX Energy	26,785	-2.0%	-0.3%	12.9%	0.4%
CNX FMCG	51,263	-0.7%	-2.6%	7.2%	15.7%
CNX Pharma	14,684	-4.8%	-2.1%	16.4%	11.1%
CNX IT	30,582	-3.8%	2.2%	10.4%	6.5%

Source: NSE, BSE

Note: Data as of October 31, 2023

The Indian equity market has been experiencing capital outflows in recent times due to global factors such as multiple rate hikes by the Federal Reserve and other Advanced Economies central banks, a rise in US Treasury yields, rising commodity prices, and heightened geopolitical tensions due to the ongoing war between Russia and Ukraine and the Israel Gaza conflict.

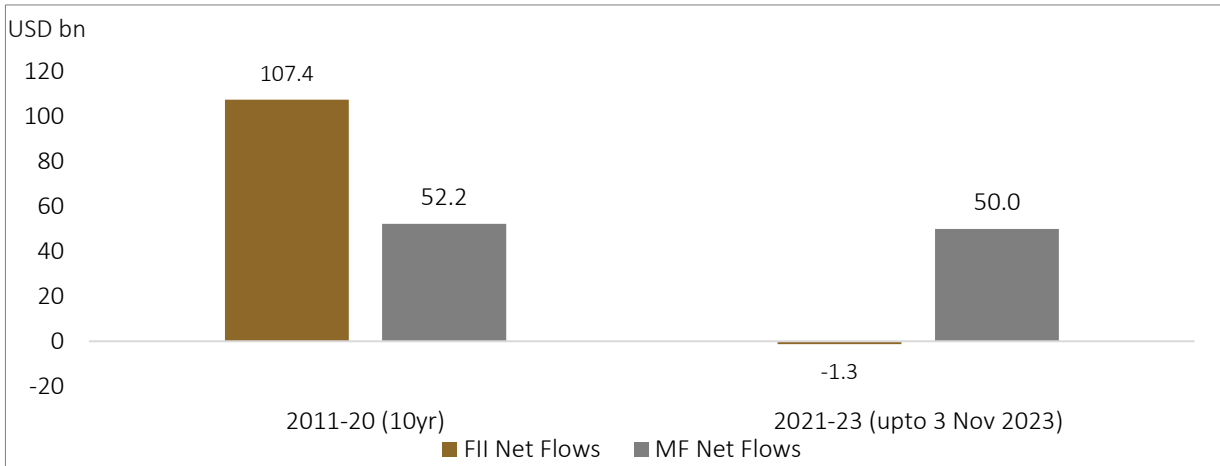
Despite the market's volatility, its resilience can be attributed to several factors. Firstly, there has been robust earnings growth in India. Secondly, there are structural elements that bolster the Indian growth narrative. Lastly, domestic flows have been on the rise but not as a big percentage of the overall NSE500 ownership.

While we discussed the first 2 reasons in our previous newsletters, let's look at domestic flows in this month's newsletter and NSE500 shareholding pattern.

One will notice in the below chart that the colour of the flows has changed in the markets post 2020, the bigger contributor to the flows has been the domestic mutual fund flows vs FIIs in the period between 2011-2020.

## EQUITY OUTLOOK

### INDIA – Changing Colours of Flows



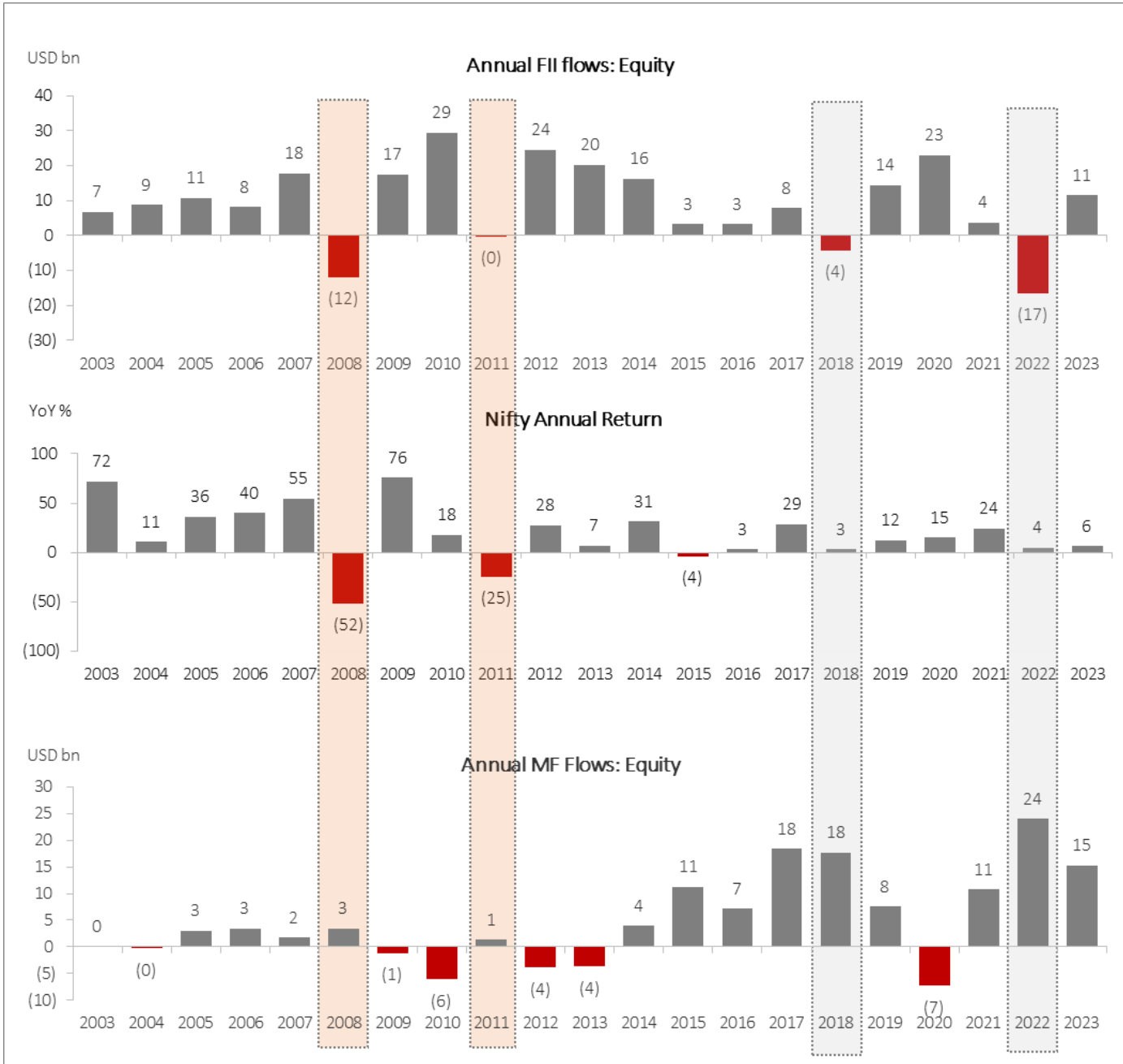
Source: SEBI, Exchanges, Yes Securities, Bloomberg

Note: Data as of November 03, 2023

### India – Foreign flows vs Domestic Flows – What’s Driving Returns?

It’s interesting to see how the dynamics of the Indian markets have changed over the years. The increase in domestic buying post 2014 seems to have had a significant impact on market stability, even in the face of high FII outflows. This trend indicates the growing strength and resilience of the domestic market. It’s also noteworthy that despite the high outflows in 2022, the markets still managed to yield a return of 4%, thanks to the absorption by domestic funds.

# EQUITY OUTLOOK

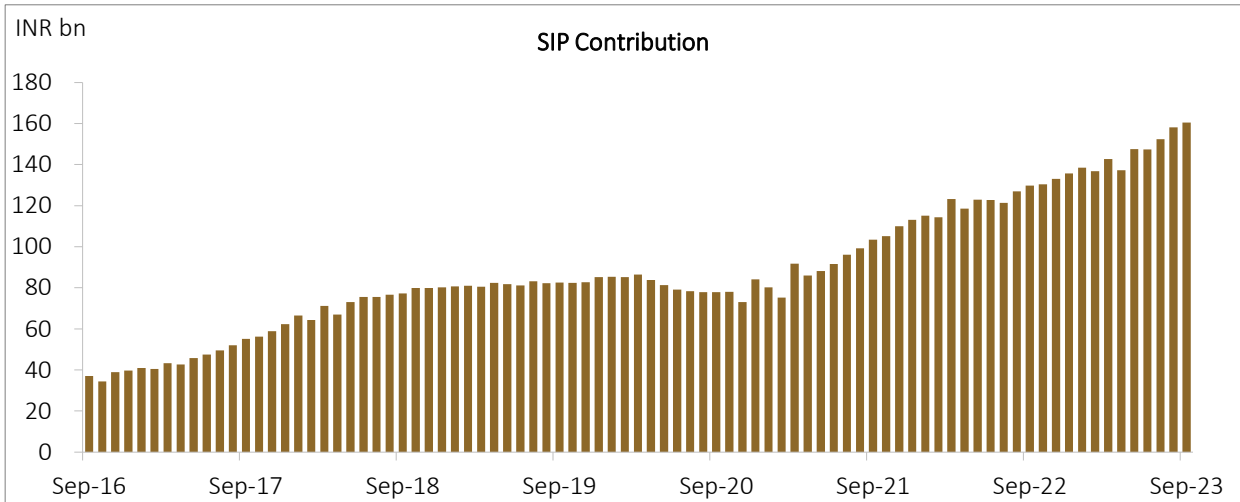


Source: Bloomberg

# EQUITY OUTLOOK

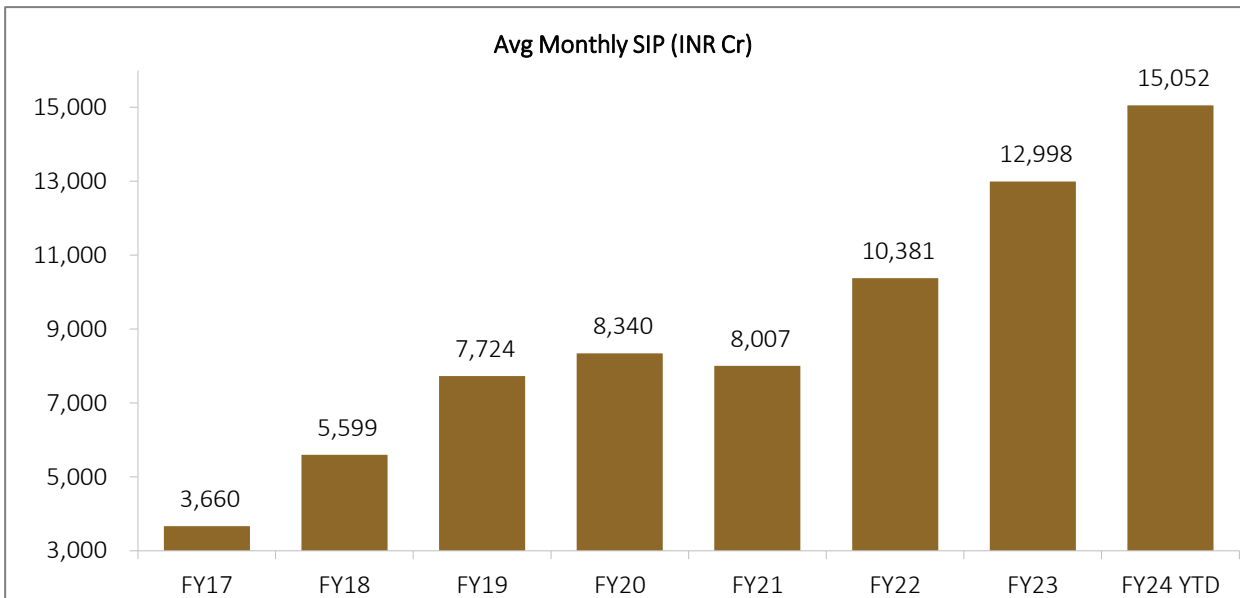
## SIPs Continue to Drive Equity AUM

Equity market flows for DII's have been driven by strong Systematic Investment Plans or SIP's and the penetration is intensifying in lower-tier cities. Cancellation and bounce rates have seen a marked reduction over the past few months.



Source: Yes Securities, AMFI

Note: Data as on September 30, 2023



Source: Yes Securities, AMFI

Note: Data as on September 30, 2023

## EQUITY OUTLOOK

### India Allocation Seen Increasing in FII ETF Funds

Over the last 3 years in spite of the FII outflows flows, India's weightage in most foreign ETFs seems to have gone up, as India's relative attractiveness to global funds keeps on improving.

The proportion of AUM allocated to India has increased by ~90 bps in the last one year.

Particulars	As on Aug 2021	As on Aug 2022	As on Aug 2023
Number of Funds	218	317	350
Overall FII ETF AUM (\$bn)	602	659	737
AUM allocated to India (\$bn)	59	64	78
Proportion of AUM allocated to India	9.9%	9.7%	10.6%

Source: Bloomberg, IIFL Research

Key FII ETFs in India – major exposure coming from Blackrock and other smaller funds over the years.

Fund Manager	Total India Exposure (US\$ bn)		
	As of Aug 2021	As of Aug 2022	As of Aug 2023
Blackrock (iShares)	29.6	31.8	37.2
Vanguard	17.4	18.2	21.0
WisdomTree	2.1	1.6	2.0
SPDR	1.6	1.8	2.2
BMO	0.4	0.2	0.2
Others	8.2	10.0	15.6
<b>Total</b>	<b>59.4</b>	<b>63.6</b>	<b>78.2</b>

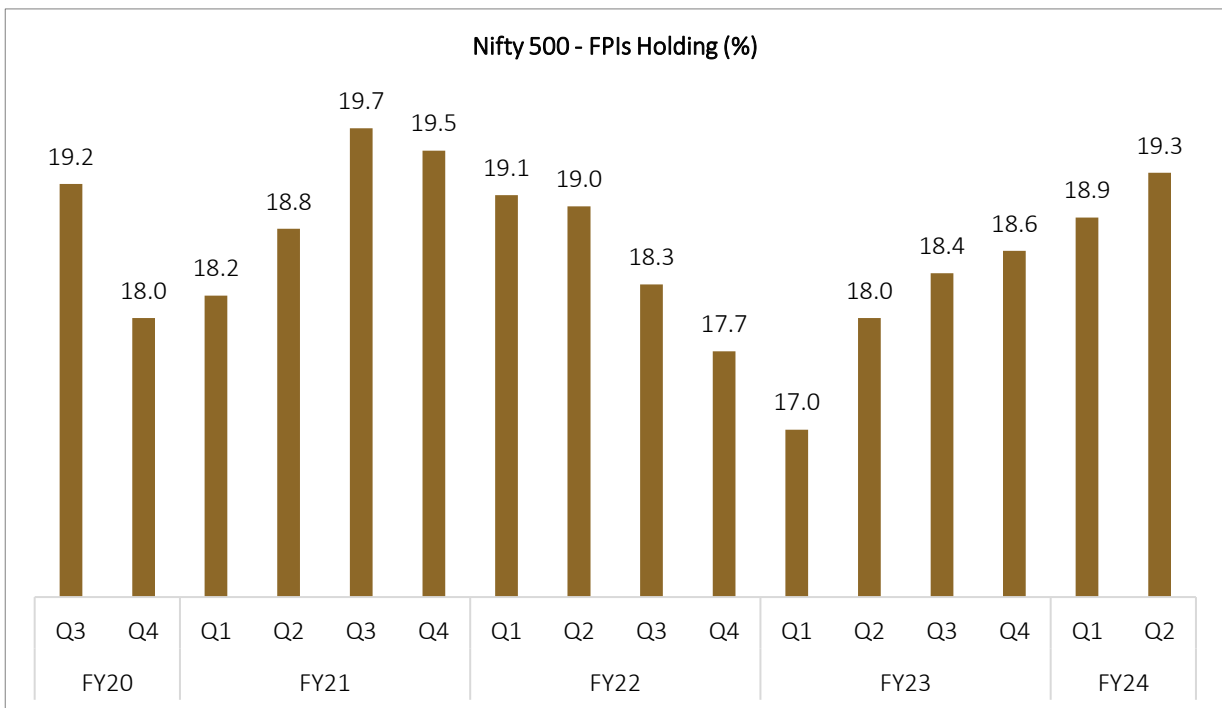
Source: Bloomberg, IIFL Research

Passive money flows into India has always remained resilient, as even during years of outflows, passive money has always kept coming in. With the increase in the weightage of India in global indices, passive money may continue to keep flowing in and we believe that it can see more flows from active funds as well.

## EQUITY OUTLOOK

### Market Ownership Remains Stable and Institutional in Nature

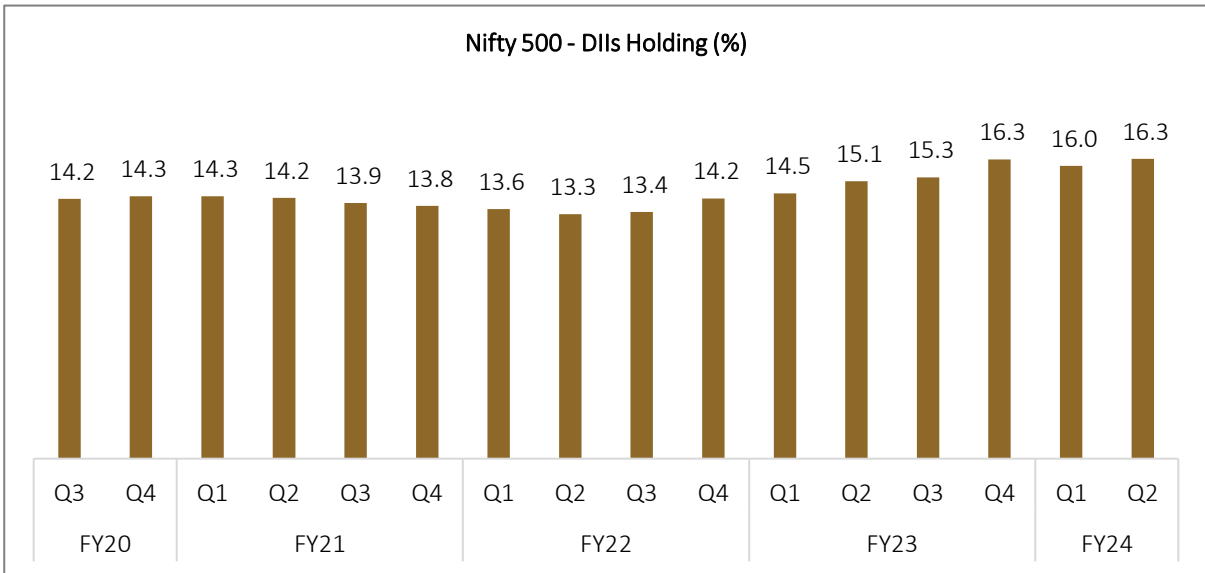
- Total institutional ownership has remained stable at around 34%-35%.
- Domestic Institutional Investors (DII) holding has increased from approximately 14% to around 16%.
- Foreign Institutional Investors (FII) holding has decreased from a peak of about 20% to around 19% now which could improve with an increase in allocation to India.
- Public holding has remained stable at around 8%-9%
- The promoter group still holds the majority at almost ~55% of NSE 500 companies.



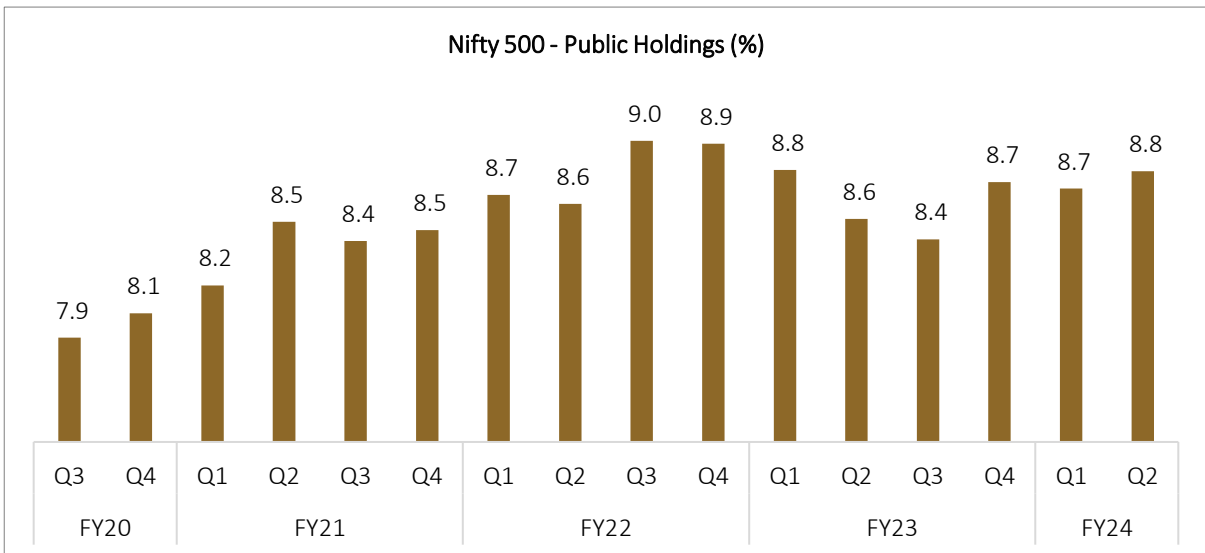
Source: Yes Securities, Exchanges



## EQUITY OUTLOOK



Source: Yes Securities, Exchanges



Source: Yes Securities, Exchanges

## EQUITY OUTLOOK

Indeed, the increased participation from both institutional investors and households has significantly contributed to the deepening and diversification of the markets. This, in turn, has enhanced the market's ability to withstand higher volatility.

Moreover, the strong balance sheets of most corporates and banks, which have been deleveraging throughout the Quantitative Easing (QE) decade, have further bolstered the resilience of Indian markets against abrupt shocks.

This combination of factors has created a more robust and dynamic financial environment.

Getting back to Chapter 4, Shri Krishna clarified and elaborated upon key topics within Karma yoga. First, he gave the *parampara* or tradition of the teaching. He then revealed his nature as *Ishvara*, and explained the method by which he manifests as an *Avataara*. Finally, he explained how he responds in the exact manner that one approaches him.

In this chapter, Shri Krishna urges us to move to the next stage in this journey where we begin to lose the notion of doership "seeing inaction in action." For example, when a doctor performs a surgery for a patient, the patient getting well or otherwise is not in the doctor's hands, the doctor has merely done his job, which he must do sincerely and with very clean intentions.

Himani Shah, CFA  
SVP - Investments & 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.

Market Views: [Market Views - October 2023 - YouTube](#)

*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.*

## Q2 FY24 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies\*\* whose results are available till 7 Nov 2023 in Q2 FY24:

Scrip	Sales ( INR Mn)			EBITDA ( INR Mn)			PAT ( INR Mn)		
	Q2FY24	Q2FY23	% chg	Q2FY24	Q2FY23	% chg	Q2FY24	Q2FY23	% chg
BAJAJ FINANCE LTD	88,447	70,010	26%	58,347	44,862	30%	35,507	27,807	28%
ICICI BANK LTD	4,06,971	3,10,879	31%	1,42,293	1,16,803	22%	1,02,610	75,578	36%
BAJAJ FINSERV LTD#	88,447	70,010	26%	58,347	44,862	30%	35,507	27,807	28%
HDFC LIFE INSURANCE CO LTD	30,450	28,500	7%	8,010	7,720	4%	3,768	3,262	16%
AXIS BANK LTD ##	3,16,603	2,41,801	31%	86,319	77,162	12%	58,636	53,298	10%
CAN FIN HOMES LTD	3,226	2,565	26%	2,702	2,160	25%	1,581	1,417	12%
L&T FINANCE HOLDINGS LTD	21,572	18,189	19%	12,974	11,321	15%	5,942	3,603	65%
SUNDRAM FASTENERS LTD	14,218	14,017	1%	2,307	2,047	13%	1,319	1,153	14%
GARWARE TECHNICAL FIBRES LTD	3,283	3,560	-8%	686	621	11%	525	478	10%
VARUN BEVERAGES LTD*	38,705	31,766	22%	8,821	6,990	26%	5,011	3,810	32%
TITAN CO LTD	1,07,130	86,810	23%	15,350	13,080	17%	9,160	8,350	10%
INDIAN HOTELS CO LTD	14,332	12,326	16%	3,548	2,940	21%	1,669	1,296	29%
LARSEN & TOUBRO LTD	5,10,240	4,27,626	19%	70,405	63,678	11%	32,226	22,290	45%
DIXON TECHNOLOGIES INDIA LTD	49,432	38,668	28%	1,989	1,452	37%	1,134	771	47%
HITACHI ENERGY INDIA LTD	12,280	11,146	10%	653	758	-14%	247	372	-34%
BHARAT ELECTRONICS LTD	40,091	39,616	1%	10,142	8,683	17%	7,897	6,244	26%
JSW ENERGY LTD	32,594	23,875	37%	18,804	8,896	111%	8,568	4,657	84%
MAX HEALTHCARE INSTITUTE LTD	13,632	11,371	20%	3,874	3,189	21%	2,767	4,574	-40%
SYNGENE INTERNATIONAL LTD	9,101	7,681	18%	2,720	2,351	16%	1,165	1,020	14%
RELIANCE INDUSTRIES LTD	23,18,860	22,94,090	1%	4,48,090	3,45,160	30%	1,73,940	1,36,560	27%
AJANTA PHARMA LTD	10,284	9,381	10%	2,907	1,963	48%	1,953	1,566	25%
DIVI'S LABORATORIES LTD	19,090	18,545	3%	4,790	6,210	-23%	3,480	4,936	-29%
TATA ELXSI LTD	8,817	7,632	16%	2,635	2,265	16%	2,000	1,743	15%
PERSISTENT SYSTEMS LTD	24,117	20,486	18%	4,052	3,680	10%	2,633	2,200	20%
TVS MOTOR CO LTD	81,446	72,192	13%	8,998	7,365	22%	5,366	4,075	32%
KPIT TECHNOLOGIES LTD	11,992	7,448	61%	2,494	1,475	69%	1,409	835	69%
SCHAEFFLER INDIA LTD*	18,536	17,564	6%	3,404	3,190	7%	2,328	2,154	8%
COFORGE LIMITED	22,762	19,594	16%	3,409	3,371	1%	1,810	2,011	-10%
MARUTI SUZUKI INDIA LTD	3,55,351	2,85,435	24%	47,842	27,689	73%	37,165	20,615	80%

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

Source: Alchemy Capital

\*Companies following CY for reporting results

#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.

##Axis Bank - YoY isn't comparable due to Citi Bank in Q2FY24 data and not in Q2FY23 data.

Please note for BFSI companies, Sales = Total income, EBITDA = Operating profit, For Insurance Companies; Sales = APE, EBITDA = VNB

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