

-INVEST-



Investment Matters

December 2023

EQUITY OUTLOOK

Markets Touch New All Time High, What Next?

In chapter 5 of the Bhagavad Gita, Shree Krishna compares *Karm Sanyās Yog* (the path of renunciation of actions) with *Karmyog* (the path of work in devotion).

He says: We can choose either of the two paths, as both lead to the same destination. However, he explains that the renunciation of actions is rather challenging and can only be performed flawlessly by those whose minds are adequately pure. Purification of the mind can be achieved only by working in devotion. Therefore, *Karm yog* is a more appropriate path for the majority of humankind. The *Karm Yogis* with a purified intellect perform their worldly duties without any attachment to its fruit.

Looking back at the markets this month, here is how the major indices and sectors performed.

Performance (%)					
	Nov-23	1M	3M	6M	1Y
Major Indian Indices					
Sensex	66,988	4.9%	3.3%	7.0%	6.2%
Nifty	20,133	5.5%	4.6%	8.6%	7.3%
CNX-100	20,201	6.1%	5.2%	9.6%	6.8%
CNX-500	17,988	7.1%	6.3%	14.1%	12.8%
Midcap and Smallcap Indices					
BSE Midcap	34,256	9.6%	9.8%	26.4%	32.0%
BSE Smallcap	40,372	9.4%	8.7%	32.3%	36.8%
CNX Midcap	42,909	10.4%	9.7%	27.1%	33.9%
CNX Smallcap	14,171	12.0%	15.7%	39.4%	42.1%

Source: NSE, BSE

Note: Data as of November 30, 2023

Performance (%)					
NSE Sector Indices	Nov-23	1M	3M	6M	1Y
CNX FMCG	53,014	3.4%	3.8%	3.9%	16.4%
CNX Bank	44,482	3.8%	1.1%	0.8%	2.9%
CNX IT	32,582	6.5%	4.5%	11.1%	7.2%
CNX Infrastructure	6,586	8.0%	10.7%	20.6%	20.9%
CNX Energy	29,295	9.4%	13.9%	22.7%	7.1%
CNX Auto	17,552	10.3%	12.0%	23.6%	32.6%
CNX Pharma	16,239	10.6%	7.6%	28.1%	23.5%
CNX Realty	714	18.3%	27.8%	49.0%	58.5%

Source: NSE, BSE

Note: Data as of November 30, 2023

EQUITY OUTLOOK

Q2FY24 was the exact opposite of Q2FY23. In Q2FY23 we had margin compression and negative operating leverage. We have seen margins bounce back in Q2FY24 and a positive operating leverage. Also, with the festive season in Q3FY24, we should see strong traction in topline and profits especially for consumer-oriented companies and autos in the upcoming results.

Margin Improvement for Non-BFSI

NSE 500: Qtr Results 2QFY24 (INR Crores)									
Fields	Overall			Non-Financials			Financials		
	Sep-23	YoY (%)	QoQ (%)	Sep-23	YoY (%)	QoQ (%)	Sep-23	YoY (%)	QoQ (%)
Overall - 498 out of 500 Companies									
Revenue	30,43,206	2.3%	1.3%	25,19,671	1.0%	-0.1%	5,23,535	8.5%	8.8%
EBITDA / PPoP	5,63,459	34.5%	1.2%	4,37,535	42.4%	2.2%	1,25,925	12.8%	-2.1%
PBT	4,64,601	42.6%	1.9%	3,06,630	60.1%	1.2%	1,57,971	17.6%	3.2%
Adj PAT	3,24,710	35.8%	-1.6%	2,05,539	47.5%	-5.5%	1,19,171	19.4%	5.9%
EBITDA Margin (%)				17.4	500 bps	40 bps			
Largecap - 100 out of 100 Companies									
Revenue	21,11,576	1.0%	1.5%	17,55,873	0.2%	-0.2%	3,55,704	4.7%	10.8%
EBITDA / PPoP	4,16,130	34.9%	0.1%	3,20,815	42.6%	0.7%	95,314	14.1%	-1.9%
PBT	3,37,101	37.2%	0.9%	2,28,277	57.7%	0.5%	1,08,824	7.8%	1.6%
Adj PAT	2,30,539	27.7%	-4.0%	1,48,459	39.7%	-7.9%	82,080	10.6%	3.8%
EBITDA Margin (%)				18.3	540 bps	20 bps			
Midcap - 150 out of 150 Companies									
Revenue	5,82,391	5.0%	0.6%	4,57,868	2.3%	-0.7%	1,24,522	16.0%	5.3%
EBITDA / PPoP	1,01,420	40.6%	7.2%	79,001	50.9%	9.0%	22,419	13.4%	1.4%
PBT	85,540	76.0%	3.2%	50,690	87.8%	0.4%	34,851	61.3%	7.7%
Adj PAT	62,453	81.4%	1.9%	35,814	109.1%	-4.0%	26,639	54.0%	11.2%
EBITDA Margin (%)				17.3	560 bps	150 bps			
Smallcap - 248 out of 250 Companies									
Revenue	3,49,239	5.9%	1.5%	3,05,930	4.0%	1.3%	43,309	22.0%	3.2%
EBITDA / PPoP	45,910	20.3%	-0.7%	37,718	26.5%	2.1%	8,191	-1.8%	-11.9%
PBT	41,960	32.8%	7.6%	27,664	40.1%	8.7%	14,296	20.7%	5.5%
Adj PAT	31,719	30.8%	11.2%	21,266	33.4%	11.7%	10,452	25.8%	10.1%
EBITDA Margin (%)				12.3	220 bps	10 bps			

Source: Yes Securities, Exchange Filings, Capitaline

Note: Companies that have reported numbers as of November 30, 2023 have been considered for the above data.

EQUITY OUTLOOK

With Markets at new highs, the most relevant question would be, Are the markets overvalued? Are the valuations expensive? Indian markets have already run up so much, is there room for more?

Here's our understanding of the same.

We have been consistently saying that the markets are following earnings growth. On earnings growth therefore the markets don't look that expensive. If we look at the broader Nifty 500 companies Adjusted PAT has grown ~175%. However, the Nifty 500 has moved only ~90% between FY19-FY24E. Thus, we believe that the broader markets have not run ahead of the earnings, it is still lagging in earnings and there is some room for catch-up.

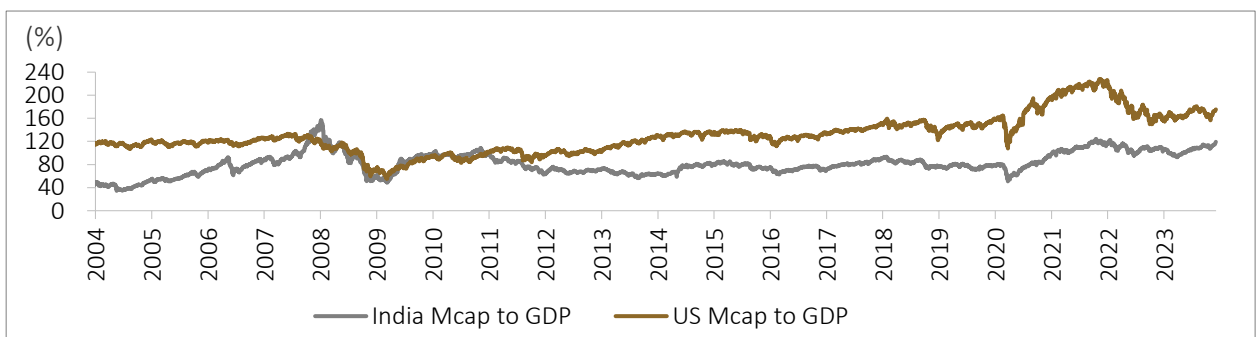
Earnings Growth and Returns for NSE 500 Companies

Period	Adjusted PAT (Rs Crs)	Nifty 500 Level	PAT Growth YoY	Nifty 500 Returns
FY19	4,79,994	9,877		
FY20	3,61,230	7,087	-25%	-28%
FY21	6,15,302	12,513	70%	77%
FY22	9,44,815	15,418	54%	23%
FY23	10,55,279	14,731	12%	-4%
1H FY24	6,55,040			
FY24E normalised 1H earnings	13,10,080	18,449	24%	25%
Simple growth FY19-FY24E	173%	87%		
CAGR return FY19-FY24E	22%	13%		

Source: Capitaline, Bloomberg, Yes Securities, Alchemy Capital

Note: Nifty 500 levels used for FY24E is as of December 4, 2023

In fact, even if one looks at India vs US Market cap to GDP, India Market cap to GDP is 119% vs peak at 157% and US Market cap to GDP is 175%

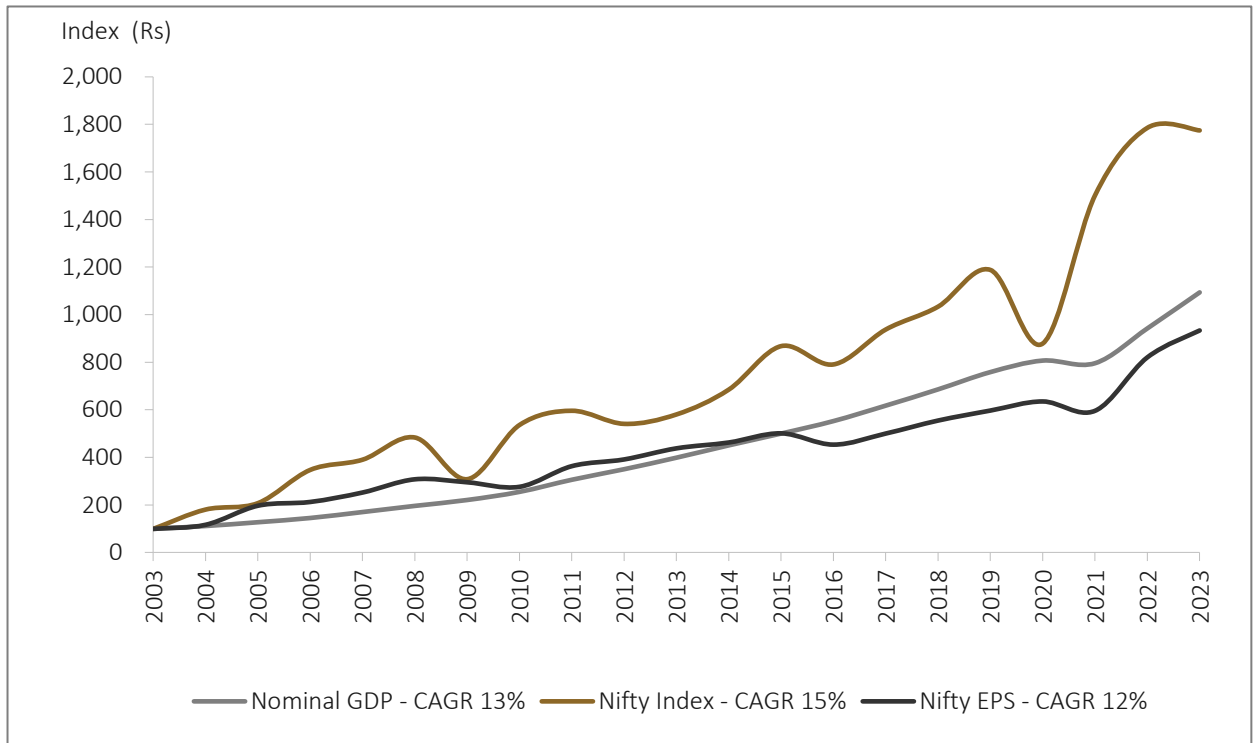


Source: Yes Securities, Bloomberg

Note: Data as of December 04, 2023

EQUITY OUTLOOK

This is because the Nifty index has broadly followed the trends in GDP and Nifty EPS over the last 20 years.

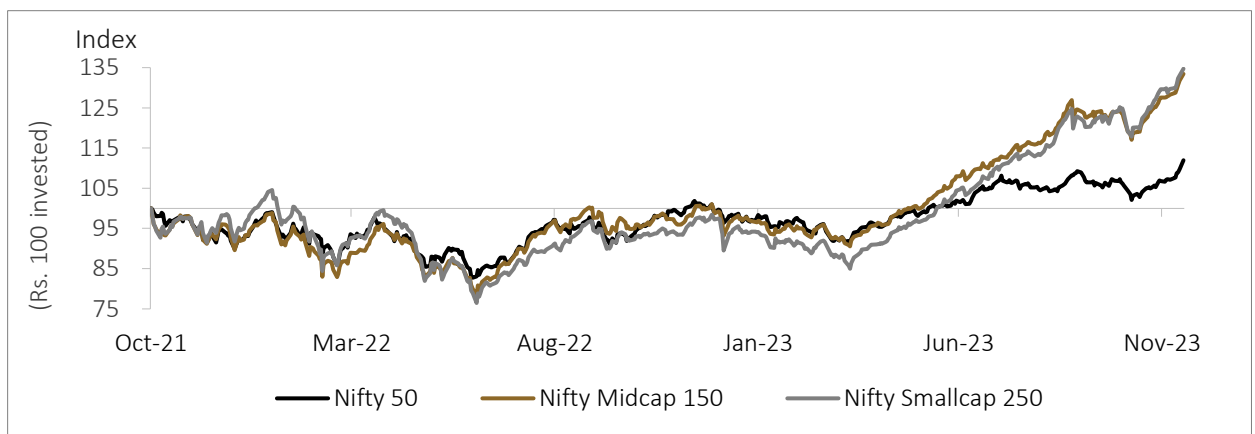


Source: Yes Securities, Bloomberg

Note: Data as of December 04, 2023

However, the Largecaps seem to be more attractive here as:

- 1) If we were to look at the Nifty returns since the last high in October 2021, Mid and Smallcaps have outperformed.



Source: Alchemy Capital, Bloomberg

Note: Data as of December 04, 2023

EQUITY OUTLOOK

This is because the Nifty index has broadly followed the trends in GDP and Nifty EPS over the last 20 years.

Index	Returns
Nifty 50	12%
Nifty Midcap 150	33%
Nifty Smallcap 250	35%

Source: Alchemy Capital, Bloomberg
Note: Data as of December 04, 2023

2) If we were to compare the valuations, Largecaps are still around their last 5-year average while small and midcaps are slightly above their 5-year averages. However, compared to October' 2021 in spite of the price move, the valuations haven't changed much because the denominator being earnings has been robust across the board.

	Nifty 50	Nifty Midcap 150	Nifty Smallcap 250
01-Oct-21	22.14	31.73	20.20
30-Nov-23	19.08	26.38	20.33
5yr Avg	19.00	24.15	17.74

Source: Alchemy Capital, Bloomberg
Note: Data as of November 30, 2023

Getting back to the Bhagavad Gita, why does Shri Krishna emphasize knowledge so much? There is always one aspect of our lives that is incomplete or imperfect. For some of us, it could be our job. For others, it could be our family and friends. For some others, it could be our health. Given these various imperfections, we try to better our situation by changing our jobs, friends and so on. This results in a roller coaster ride of joys and sorrows. But if we take a truly objective look at this situation, it turns out that we are looking for perfection in the material world, which will always be imperfect.

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Source: Alchemy Capital

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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 - November 2023 – YouTube](#)

2. Interviews :

- Mr. Hiren Ved in an interaction with CNBC TV18: [Watch the video](#)
- Mr. Alok Agarwal in an interaction with ET Markets: [Read the article](#)

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