

Investment Matters

May 2021



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EQUITY OUTLOOK

Battling through the Covid stress

Dear investor,

We hope that you and your loved ones are safe and healthy. The second Covid wave has been more deadly and widespread than the first and has had a devastating impact on many families. We would exhort you to observe all the necessary precautions – stay at home as far as possible, mask up when going out, wash and sanitise hands frequently and strictly observe social distance.

Markets have been resilient through the second Covid wave, largely due to two reasons. First, the global economy is on a strong recovery path, which has a rub-off effect. Second, the impact on domestic demand is expected to be temporary – as it was in 2020. Our view is that consumption-oriented sectors should see near-term stress, but market leaders with robust balance sheets will remain strong. On the other hand, industrials and export-oriented companies should continue to do well and will remain the leaders in this rally for a while longer.

		Performance (%)			
	Apr-21	1m	3m	6m	1Y
Major Indian indices					
Sensex	48,782	-1.5%	5.4%	23.1%	44.7%
Nifty	14,631	-0.4%	7.3%	25.7%	48.4%
CNX-100	14,791	-0.1%	7.6%	25.9%	47.8%
CNX-500	12,364	0.4%	9.4%	29.0%	54.3%
Mid-cap and Small-cap Indices					
BSE Mid-cap	20,312	0.6%	12.3%	36.3%	69.1%
BSE Small-cap	21,670	4.9%	20.5%	45.6%	95.2%
CNX Mid-cap	24,196	2.1%	15.7%	41.8%	79.2%
CNX Small-cap	8,565	5.6%	19.3%	47.2%	110.0%

Source: Bloomberg

		Performance (%)			
NSE sector indices	Apr-21	1m	3m	6m	1Y
CNX Bank	32,782	-1.6%	7.3%	37.2%	52.2%
CNX Auto	9,641	-2.2%	-1.8%	24.3%	63.4%
CNX Realty	310	-7.3%	1.3%	35.7%	65.3%
CNX Infra	4,053	-0.8%	10.4%	29.5%	47.2%
CNX Energy	18,031	-0.8%	11.6%	20.4%	37.1%
CNX FMCG	33,623	-3.7%	1.5%	14.3%	17.3%
CNX Pharma	13,469	9.8%	10.7%	19.8%	44.4%
CNX IT	25,664	-0.7%	4.1%	22.7%	81.9%

Source: Bloomberg

EQUITY OUTLOOK

The second Covid wave

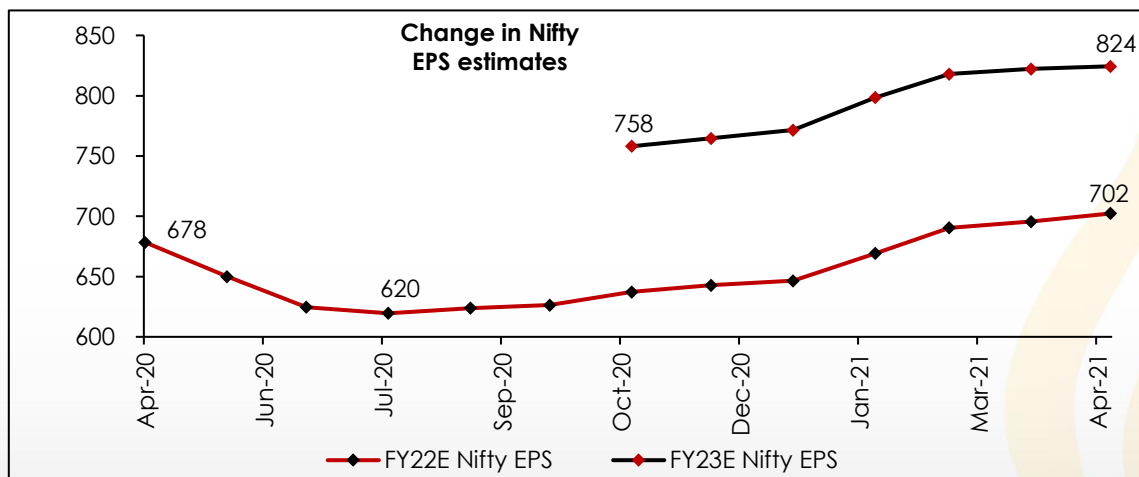
While initially, the second Covid wave was localised in a few states in March, now it has progressed rapidly to the rest of the country. It has been particularly virulent in Northern India, putting enormous strain on healthcare infrastructure in many parts. The resulting humanitarian crisis has been deep and has raised multiple risks: the quantum and direction of public expenditure, the pace of economic reform and a medium-term impact on consumption patterns.

Hope that the avoidance of a national lockdown would limit the economic impact is also ebbing, as the localised lockdowns in many major economic centres is likely to have a very strong effect. To summarise, our view is that the macro impact of the second wave will be more severe than was originally thought but will still be transient and the economy should start to normalise by the end of CY21. Companies with strong franchises and balance sheets should recover faster than market laggards.

Earnings trajectory

The 4Q earnings season has been patchy so far. ~60% of Nifty companies (As of 6 May 2021) have missed consensus forecasts, with bank provisions and gross margins being the main sources of disappointment. In a few cases, topline momentum has also been an issue.

There is a resultant pause in the FY22 Nifty EPS upgrade cycle: the 11% upgrade between October 2020 and April 2021 has now plateaued and there has been a marginal downtick in recent weeks. Around half the Nifty companies are yet to report and we will have a clearer picture by mid-May, but we reiterate the key trends we are watching in this earning season ([flagged in last month's update](#)).



Source: Bloomberg, Ambit Capital research

EQUITY OUTLOOK

Commodity prices: The strong momentum in global commodity prices are likely to squeeze producer margins in India. We think only some could be passed on and companies are likely to face a margin squeeze over 4QFY21 and 1QFY22. The ongoing results season and management commentary should give us some visibility on this issue.

Resilience of demand: The 4QFY21 results will not reflect the full impact of the second wave of Covid on ps. However, management commentary on the FY22 outlook should give us some perspective – though, to be fair, it is very difficult for even managements to be able to predict the outlook in these unprecedented times.

Sustainability of cost improvements: Companies had managed to cushion the impact of Covid on FY21 earnings with aggressive cost management. That may be difficult to sustain in FY22 without damaging the long-term franchise of the companies. The FY22 earnings outlook will have to be judged in that context.

Sectors and companies

We are adjusting our overall sector positioning to ride through this period where the economy is likely to be under stress. The overall approach is to increase weightage towards sectors that can leverage the global economic recovery or the domestic investment cycle: industrials, capital goods, pharma, chemicals and IT. We are also dipping our toes in commodities companies where we see the scope of strong balance sheet improvement. On the other hand, we are being more selective in sectors that are dependent on domestic consumption: banking and financials, consumer discretionary, retail and FMCG. In these sectors, we are backing strong franchises with defensible market shares or potential turnarounds, and are willing to pay a valuation premium for these names.

Seshadri Sen
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Source :
Alchemy Research
Bloomberg

MARKET INSIGHTS

Alchemy view on Market trends, analysis, and way forward; with additional inputs from industry experts about the different aspects to superlative asset management.

1. Blogs – Apr 2021

- Covid, earnings and rates

[Read More](#)

2. Interviews – Apr 2021*

- Expect to see strong earnings; structurally bullish on IT companies

[Mr. Hiren Ved to CNBC TV18](#)

*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.

Q4 FY21 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies** which have published their results so far in Q4 FY21 :

Stock	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q4FY21	Q4FY20	% chg	Q4FY21	Q4FY20	% chg	Q4FY21	Q4FY20	% chg
ABB INDIA Ltd*	16,290	15,220	7%	1,320	150	780%	1,500	660	127%
Bajaj Auto Ltd	84,128	66,109	27%	15,241	12,528	22%	13,321	13,103	2%
Bajaj Finance Ltd	46,594	46,834	-1%	30,534	32,320	-6%	13,466	9,481	42%
Britannia Ltd	30,381	28,078	8%	5,054	4,543	11%	3,600	3,748	-4%
Deepak Nitrite Ltd	14,632	10,555	39%	4,547	2,621	73%	2,901	1,723	68%
Delta Corp Ltd	2,176	1,289	69%	855	580	47%	578	290	99%
HCL Ltd	1,96,420	1,85,900	6%	50,970	47,200	8%	29,620	31,530	-6%
HDFC Asset Management Com Ltd	5,029	4,761	6%	3,804	3,561	7%	3,161	2,498	27%
HDFC Bank Ltd #	2,47,141	2,12,366	16%	1,55,328	1,29,588	20%	81,865	69,277	18%
HDFC Life Insurance Company @	28,799	21,110	36%	-	-	-	7,920	5,100	55%
ICICI Bank Ltd #	1,45,425	1,31,819	10%	85,398	73,901	16%	44,028	12,214	260%
India Mart Intermesh Ltd	1,797	1,701	6%	854	523	63%	557	450	24%
L&T Infotech Ltd	32,694	30,119	9%	7,155	5,781	24%	5,457	4,274	28%
L&T Technology Services Ltd	14,405	14,466	0%	2,931	2,683	9%	1,945	2,048	-5%
Maruti Suzuki Ltd	2,40,237	1,81,987	32%	19,911	15,464	29%	11,661	12,917	-10%
Multi Commodity Exc Of India Ltd	976	1,053	-7%	486	407	19%	524	655	-20%
Nestle India Ltd *	36,108	33,058	9%	8,805	7,426	19%	6,023	5,060	19%
Praj Industries Ltd	5,671	2,963	91%	749	320	134%	520	249	109%
Reliance Industries Ltd	14,95,750	13,64,920	10%	2,33,510	2,20,340	6%	1,83,670	99,140	85%
Sundram Fasteners Ltd	12,731	8,309	53%	2,368	1,228	93%	1,408	534	164%
Syngene International Ltd	6,586	6,073	8%	2,154	2,041	6%	1,606	1,202	34%
Tata Communication Ltd	40,278	43,377	-7%	9,697	8,087	20%	2,992	-2,750	-
Tata Consultancy Services Ltd^	4,37,050	3,99,460	9%	1,17,340	1,00,250	17%	92,460	80,490	15%
Tata Consumer Products Ltd	30,372	24,050	26%	3,002	3,083	-3%	1,383	1,419	-3%
Tata Elxsi Ltd	51,840	43,889	18%	16,804	10,860	55%	11,517	8,208	40%
Tata Steel Ltd	4,99,774	3,37,700	48%	1,42,905	46,687	206%	86,708	21,043	312%
Titan Company Ltd	71,690	44,688	60%	7,950	6,037	32%	5,290	3,568	48%
Trent Ltd	7,737	7,228	7%	1,366	929	47%	505	26	1842%
United Breweries Ltd	15,435	14,242	8%	2,613	1,323	98%	968	412	135%
Varun Beverages Ltd *	22,409	16,764	34%	3,816	2,711	41%	1,368	561	144%

* indicates CY end - So Q4 FY21 = Q1 CY21

indicates Net Interest Income + Other income, Pre-Provision Operating Profit and PAT for banks

@ Indicates Annual Premium Equivalent (APE) and Value of New Business (VNB) for life insurance companies

\$ Indicates Net Written Premium and PAT for general insurance companies

^ Sales EBIT and PAT

** For Alchemymy High Growth, Alchemymy High Growth Select Stock Portfolios

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