

-INVEST-



Investment Matters

May 2022

EQUITY OUTLOOK

Rate hikes – overblown fears

RBI’s off-cycle rate hike surprised the market more on its timing than its actual action. It has been apparent from the beginning of CY22 that the rate cycle had bottomed out and a period of normalisation would soon begin. Beyond the immediate shock of the sudden announcement, we think a steady normalisation of rates and liquidity to pre-pandemic levels will be absorbed by the economy and the market. It does not change our thesis of a strong growth recovery and continued earnings momentum across the headline indices. We believe that the broader markets will remain volatile with muted upside over the next 12 months, but there would be opportunities in smaller sectors and individual stocks.

	Performance (%)				
	Apr-22	1M	3M	6M	1Y
Major Indian indices					
Sensex	57,061	-2.6%	-1.6%	-3.8%	17.0%
Nifty	17,103	-2.1%	-1.4%	-3.2%	16.9%
CNX-100	17,457	-1.2%	-0.5%	-2.4%	18.0%
CNX-500	14,783	-0.7%	-0.9%	-2.0%	19.6%
Mid-cap and Small-cap Indices					
BSE Mid-cap	24,418	1.3%	-0.8%	-3.4%	20.2%
BSE Small cap	28,612	1.4%	-2.1%	2.2%	32.0%
CNX Mid-cap	29,880	0.6%	-1.3%	-1.9%	23.5%
CNX Small cap	10,257	-1.7%	-7.7%	-4.7%	19.8%

Source: NSE, BSE

NSE sector indices	Performance (%)				
	Apr-22	1M	3M	6M	1Y
CNX Bank	36,088	-0.8%	-5.0%	-7.7%	10.1%
CNX Auto	11,078	5.0%	-5.3%	-1.9%	14.9%
CNX Realty	444	-4.3%	-7.6%	-11.0%	43.3%
CNX Infrastructure	5,128	2.2%	1.4%	1.6%	26.5%
CNX Energy	28,594	10.7%	14.5%	23.1%	58.6%
CNX FMCG	38,204	5.3%	4.8%	0.0%	13.6%
CNX Pharma	13,463	-0.9%	2.1%	-3.0%	0.0%
CNX IT	31,622	-12.9%	-9.2%	-8.1%	23.2%

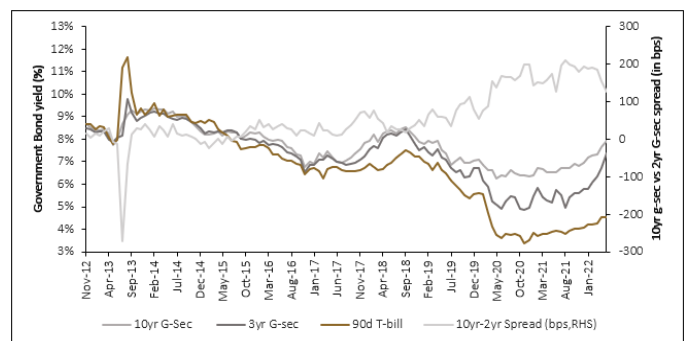
Source: NSE, BSE

More rate hikes to come

We see more rate hikes over the rest of CY22, with an exit level of 5.25% to 5.5%. We also expect more action on tightening liquidity, given it is significantly above the normative neutral. The impact is likely to be felt at the short end, though the 10-year could also push up beyond 7.5% by end-FY23. This could, of course, impact market rates across the board. Borrowing costs, especially for high-quality corporates, may move up significantly, as should term deposit rates.

In the larger context, the RBI is merely withdrawing the excess accommodation of Covid times. If we ignore the rate of change and focus on the levels, the repo rate at 5-5.5%, 10-year at 7.5-7.75% and the 1-year OIS at 5.5%-6% is, at best, middle of the historic range. These moderate levels of interest rates should neither hurt aggregate demand nor create balance sheet stress for corporates or individuals.

The withdrawal of the excess accommodation could, on the other hand, be positive for financial stability. The pressure on the rupee is likely to ease and the RBI may not be required to defend the currency as it had to for the past few months. If the RBI’s tightening measures do, indeed, stabilise the rupee, this could be a net incremental benefit for the domestic economy.



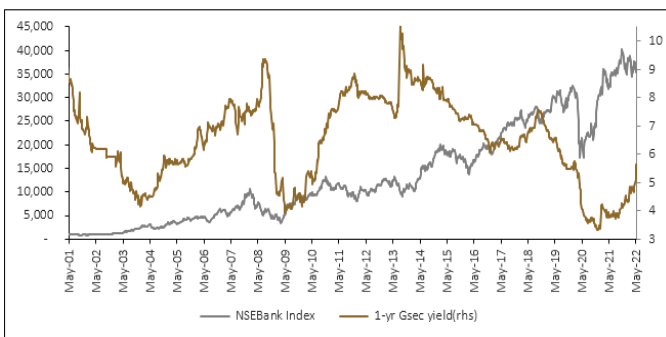
Source: Ambit Capital, Bloomberg

EQUITY OUTLOOK

Impacts on financials

- In general, financials benefit at the beginning of the rising rate cycle. Liabilities reprice slower than assets, leading to a proforma NIM expansion for most banks. However, in the real world, increased competition eats away at some of these gains as banks cut their loan spreads in the quest for market share. The net impact would be a positive, but it could be smaller than the simple maths suggest.
- This is also a period where quality deposit franchises start to stand out. Wholesale liabilities start to reprice faster than retail ones, and that sometimes eats further into the benefits of the natural margin expansion. Moreover, wholesale liabilities would gradually become costlier than retail ones.

There is no clear correlation between interest rates and bank stock prices (see chart below). We believe that high-quality banks will remain resilient through this rate cycle and will not change our view on the sector because of the RBI action.



Source: Ambit Capital, Bloomberg

Impacts on other sectors

Interest costs should rise, with high-quality borrowers seeing a bigger change as they move in tandem with short-term benchmarks. The impact would, however, be negligible given the ultra-low leverage levels in corporate India. Moreover, given our strong filters on

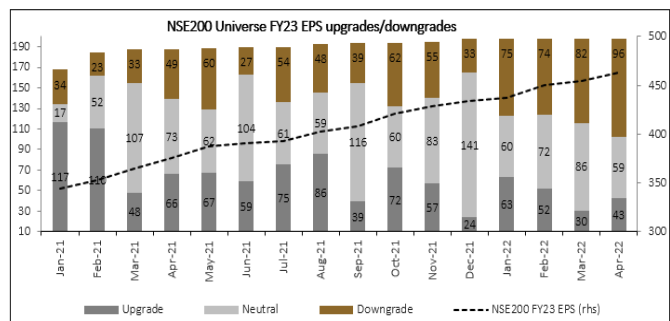
leveraged companies, we believe that our investment universe is even more protected.

The second-order potential risk is on aggregate consumer demand. Despite rising household leverage, we believe that this would, also, be negligible. We see three factors mitigating the impact – a) competition will limit the transmission of these rates to consumers b) wage increases in the organised sector have been very strong, so affordability may not be affected and c) lenders can adjust by tools like increasing loan tenor to minimise the impact on borrower cash flows.

Earnings remain resilient

The positive is that broader earnings remain resilient through the macro headwinds. FY23/FY24 consensus forecasts remain largely unchanged through the last four months, with EPS growth forecasts in the mid-teens. This would represent the strongest three-year period of earnings growth for the Nifty in the last 10-12 years, as we have highlighted in our previous posts. None of the macro headwinds – the Russia-Ukraine war, high commodity prices and rising interest rates have a material impact on aggregate headline earnings.

Smaller individual companies would however be hurt, as the next chart shows (refer chart below). Even as the headline Nifty EPS forecast holds firm, the pace of downgrades in individual companies is accelerating. Our focus, therefore, has been stock-specific and bottom-up with a strong focus on earnings and valuations.



Source: Ambit Capital, Bloomberg

EQUITY OUTLOOK

Choppy markets ahead: follow the earnings

We expect the markets to remain volatile with limited upside for the broader market in the next year (low double-digits). The volatility may continue until the geopolitical risks and the process of normalising liquidity, both globally and locally, is done. However, we think that there are enough tailwinds for India's broader macro – a full opening-up, strong rural economy and the capex cycle – to overcome these challenges.

Our strategy in this environment is to “follow the earnings”. In a market without any significant broad momentum, earnings growth will be the key driver of stock prices – finding rerating candidates will get increasingly tougher. Of course, the sustainability of the earnings growth will also have to be considered – strength of balance sheet and cash flows, longer-term competitive advantage and management quality – but these are qualifying factors rather than stock price drivers by themselves.

Seshadri Sen
Head of Research
Alchemy Capital Management Pvt. Ltd.

Source: Alchemy Research

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. Market Views [Market Views - Apr 2022 - YouTube](#)

2. Interviews :

- Mr. Hiren Ved in an interaction with ET Now: [Watch the video](#)
- Mr. Hiren Ved in an interaction with CNBC Awaaz: [Watch the video](#)
- Mr. Hiren Ved in an interaction with Bloomberg Quint: [Watch the video](#)
- Mr. Hiren Ved in an interaction with Economic Times : [Read the article](#)

*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 FY22 PERFORMANCE OF PORTFOLIO COMPANIES

The following table summarizes the performance of portfolio companies** which have published their results so far in Q4 FY22 :

Scrip	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q4FY22	Q4FY21	% chg	Q4FY22	Q4FY21	% chg	Q4FY22	Q4FY21	% chg
TATA ELXSI LTD	6,817	5,184	32%	2,212	1,680	32%	1,492	1,117	34%
BAJAJ FINANCE LTD	86,266	68,506	26%	59,288	41,037	44%	31,183	25,742	21%
ICICI BANK LTD #	3,22,001	3,36,662	-4%	1,15,280	99,329	16%	77,189	48,862	58%
DEEPAK NITRITE LTD	18,724	14,632	28%	4,103	4,547	-10%	2,698	2,963	-9%
L&T TECHNOLOGY SERVICES LTD	17,561	14,405	22%	3,805	2,931	30%	2,402	1,788	34%
TITAN CO LTD	72,670	73,510	-1%	7,940	8,170	-3%	5,585	5,633	-1%
SUNDRAM FASTENERS LTD	13,398	12,731	5%	1,915	2,368	-19%	1,061	1,428	-26%
LARSEN & TOUBRO INFOTECH LTD	43,016	32,694	32%	8,464	7,155	18%	5,521	4,818	15%
RELIANCE INDUSTRIES LTD	20,73,750	14,95,750	39%	3,38,230	2,65,880	27%	2,07,638	1,79,543	16%
TATA CONSUMER PRODUCTS LTD	31,754	30,372	5%	4,443	3,002	48%	2,298	989	132%
BAJAJ FINSERV LTD	1,88,617	1,53,869	23%	60,929	46,417	31%	32,351	30,061	8%
ANGEL BROKING	6,713	4,086	64%	2,850	1,469	94%	2,088	1,023	104%
BLUE DART EXPRESS LTD	11,659	9,683	20%	2,918	2,483	18%	1,490	1,036	44%
SYNGENE INTERNATIONAL LTD	7,581	6,586	15%	2,412	2,107	14%	1,328	1,176	13%
GARWARE TECHNICAL FIBRES LTD	3,563	3,354	6%	734	709	3%	514	507	1%
HDFC LIFE INSURANCE CO LTD @	1,76,823	1,91,929	-8%	4,728	3,102	52%	5,062	3,191	59%
BAJAJ AUTO LTD	77,281	84,128	-8%	13,607	15,219	-11%	10,081	11,529	-13%
TATA CONSULTANCY SVCS LTD	5,05,910	4,37,050	16%	1,38,450	1,28,010	8%	94,105	86,944	8%
DELTA CORP LTD	2,183	2,113	3%	690	792	-13%	407	507	-20%
MPHASIS	32,777	25,243	30%	5,772	4,671	24%	3,781	3,033	25%
INDIAN HOTELS CO LTD	8,721	6,150	42%	1,590	713	123%	576	-492	-217%
INDIAMART INTERMESH LTD	2,014	1,797	12%	572	854	-33%	406	511	-21%

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

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

Source: Alchemy Research

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. (SEBI Regn No:INP000000365)

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