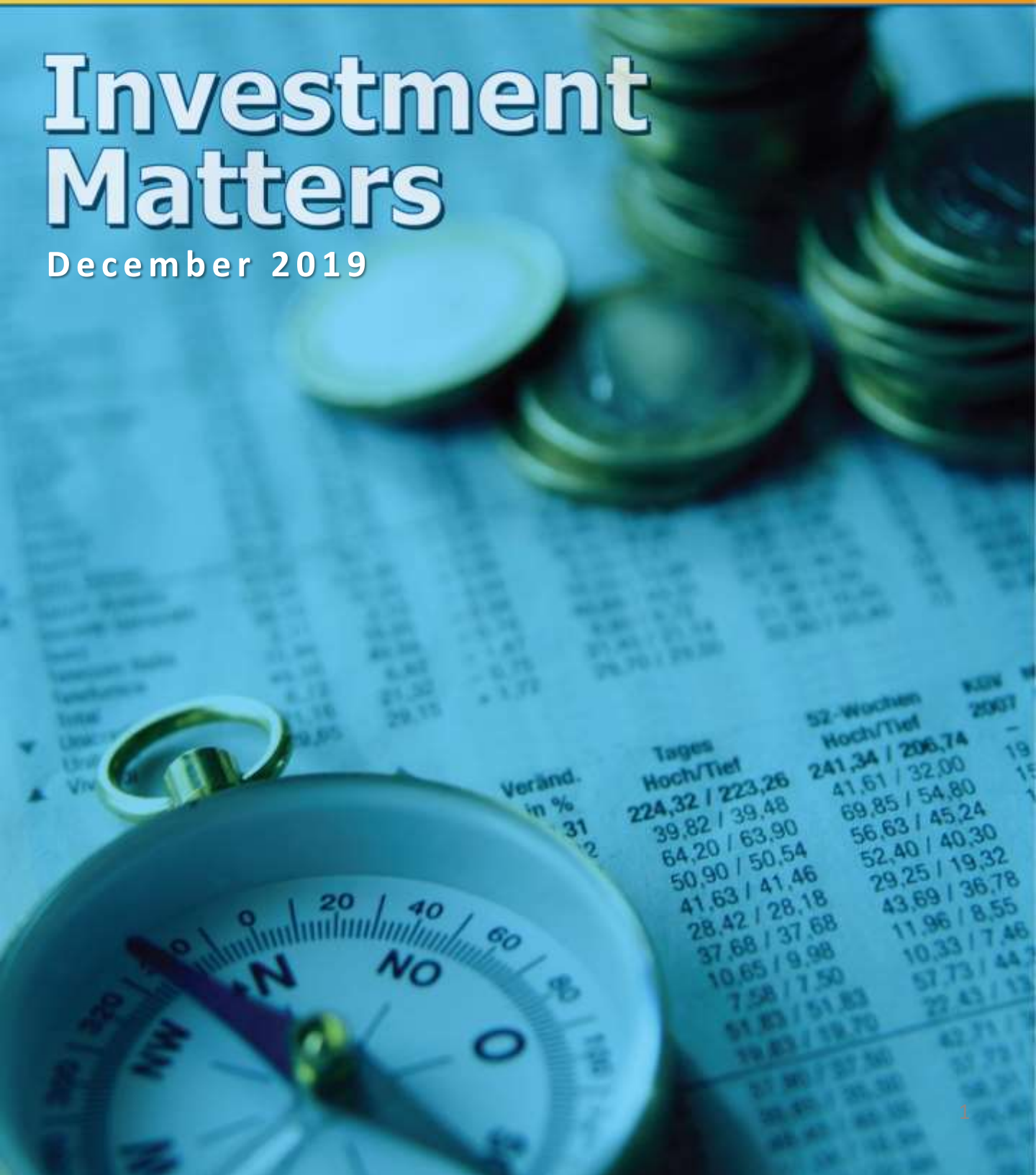


Investment Matters

December 2019



EQUITY OUTLOOK

Markets pausing for breath...

The markets remained resilient through November 2019 with the Nifty rising 2.2% and the NSE Midcap rising 5.7%. The NSE Bank was one of the key sectoral indices, rising >8% this month.

The concurrent indicators for the economy remained weak. Industrial growth was sluggish and the Index of Industrial Production (IIP) delivered a negative print for October 2019. Exports also remained sluggish with a 1.1% contraction for October 2019. The worrying sign is that bank credit growth remains stubbornly low at 8.1% y/y. Compounded with the weak growth for NBFCs and the bond market; this remains an impediment to growth. This weakness is reflected in the GDP growth for 2QFY20, which came in at 4.5%.

Some positives are, however, coming through. As we discussed last month, interest rates are continuing to head southwards, aided by both RBI rate cuts and transmission. The monsoons have been strong and this should aid a recovery in rural sentiment. The deflation of food prices would also help in improving cash flows to the farming and rural segments. Additionally, you may also read the views from HDFC Bank in The Print (<https://theprint.in/economy/hdfc-bank-sees-signs-of-economy-reviving-in-rural-and-semi-urban-areas/329435/>) *

The policy environment is improving with some significant events this month.

- The Supreme Court judgment on the Essar Steel insolvency was a major positive for the banking sector. It resolves many of the uncertainties surrounding the IBC process, and this will help banks recover future NPAs faster, with lower losses. This should be positive for corporate banks like ICICI Bank and Axis Bank.
- The Cabinet approved the privatization of Air India and BPCL this month. These have twin benefits – not only does the stressed fiscal get a boost but it also helps improve efficiencies in the economy as ownership transitions from the state to private hands. There are still some obstacles in execution but the intent of the government is a good sign.
- The Lok Sabha took up the Industrial Relations Code Bill – this could form the basis for significant labour reform. Rigid labour laws are seen as an impediment to the investment cycle.

The key risks remain unchanged. The real estate sector is a pain point and the source for much of the stress in the financial sector. The government's proposed Alternative Investment Fund (AIF) is a good step but would take time to impact. The other source of pain is the fiscal deficit – weak growth is translating to sluggish revenues, which are now lagging behind the budget forecasts.

EQUITY OUTLOOK

We are slowing our deployment as the post-September 2019 rally has stretched valuations for the portfolio companies. On the other hand, the continued weakness in the economy does not give us confidence to go down the quality curve. We will watch the market till the next Budget in end-January 2020 for further cues.

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Q2FY20 Performance of Portfolio Companies

The following table summarises the performance of portfolio companies in Q2FY20 :

| Stock | Sales (Rs Mn) | | | EBITDA (Rs Mn) | | | PAT (Rs Mn) | | |
|--------------------------------|---------------|---------|----------|----------------|---------|----------|-------------|--------|----------|
| | Q2FY20 | Q2FY19 | % Change | Q2FY20 | Q2FY19 | % Change | Q2FY20 | Q2FY19 | % Change |
| Asian Paints | 50,507 | 46,155 | 9% | 9,548 | 8,447 | 13% | 8,263 | 4,923 | 68% |
| Avenue Supermarts | 59,490 | 48,725 | 22% | 5,154 | 3,896 | 32% | 3,334 | 2,257 | 48% |
| Axis Bank | 99,976 | 79,105 | 26% | - | - | - | -1,121 | 7,896 | -114% |
| Bajaj Auto | 77,073 | 80,363 | -4% | 12,781 | 14,141 | -10% | 14,024 | 11,525 | 22% |
| Bajaj Electricals | 10,918 | 15,984 | -32% | 238 | 799 | -70% | -330 | 341 | -197% |
| Bajaj Finance | 39,991 | 27,079 | 48% | - | - | - | 15,063 | 11,952 | 26% |
| Bajaj Finserv | 142,242 | 96,984 | 47% | - | - | - | 12,037 | 7,040 | 71% |
| Bandhan Bank | 18,893 | 14,986 | 26% | - | - | - | 9,718 | 4,279 | 127% |
| Container Corporation of India | 17,387 | 16,389 | 6% | 4,255 | 4,033 | 6% | -3,220 | 2,278 | -241% |
| Delta Corp | 2,008 | 2,014 | 0% | 879 | 845 | 4% | 589 | 481 | 22% |
| Godrej Consumer Products | 26,082 | 26,418 | -1% | 5,749 | 5,385 | 7% | 3,871 | 2,961 | 31% |
| HDFC Bank | 191,038 | 157,790 | 21% | - | - | - | 63,450 | 50,057 | 27% |
| Hindustan Unilever | 98,520 | 92,340 | 7% | 24,430 | 20,190 | 21% | 18,480 | 15,250 | 21% |
| ICICI Bank | 122,517 | 95,741 | 28% | - | - | - | 6,550 | 9,089 | -28% |
| Info Edge (India) | 3,166 | 2,650 | 19% | 993 | 825 | 20% | 859 | 781 | 10% |
| L&T Technology Services | 14,021 | 13,475 | 4% | 2,832 | 2,727 | 4% | 2,058 | 2,039 | 1% |
| Mahindra & Mahindra | 109,351 | 127,902 | -15% | 15,408 | 18,493 | -17% | 13,548 | 16,412 | -17% |
| Pidilite Industries | 18,066 | 17,574 | 3% | 3,682 | 3,648 | 1% | 3,217 | 2,316 | 39% |
| Qess Corp | 26,503 | 23,947 | 11% | 1,614 | 1,473 | 10% | 606 | 539 | 12% |
| Ramco Cements | 12,824 | 11,413 | 12% | 2,609 | 2,049 | 27% | 1,682 | 1,145 | 47% |
| Sterling & Wilson Solar | 11,933 | 24,725 | -52% | 947 | 293 | 223% | 794 | 584 | 36% |
| Sundram Fasteners | 7,668 | 9,986 | -23% | 1,380 | 1,758 | -22% | 711 | 1,107 | -36% |
| Syngene International | 4,646 | 4,186 | 11% | 1,194 | 1,315 | -9% | 567 | 782 | -27% |
| Tata Consultancy Services | 389,770 | 368,540 | 6% | 102,260 | 102,780 | -1% | 80,580 | 79,270 | 2% |
| Tata Elxsi | 3,858 | 4,028 | -4% | 705 | 1,067 | -34% | 500 | 822 | -39% |
| TCNS Clothing Co | 3,208 | 3,205 | 0% | 400 | 570 | -30% | 202 | 412 | -51% |
| Thomas Cook | 17,000 | 15,999 | 6% | 76 | 118 | -36% | 38 | -54 | 170% |
| Titan Company | 46,616 | 45,672 | 2% | 5,223 | 4,979 | 5% | 3,117 | 3,301 | -6% |
| Trent | 8,180 | 6,159 | 33% | 1,386 | 592 | 134% | 383 | 329 | 16% |
| United Breweries | 15,786 | 15,260 | 3% | 1,925 | 3,182 | -40% | 1,151 | 1,645 | -30% |
| United Spirits | 72,819 | 71,250 | 2% | 4,156 | 4,429 | -6% | 2,246 | 2,587 | -13% |
| Varun Beverages | 17,397 | 11,657 | 49% | 3,257 | 2,112 | 54% | 807 | 423 | 91% |
| V-Mart Retail | 3,142 | 2,622 | 20% | 113 | -14 | 907% | -180 | -16 | -1025% |
| Zee Entertainment Enterprises | 21,220 | 19,759 | 7% | 6,929 | 6,757 | 3% | 4,133 | 3,861 | 7% |

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