ALFACCURATE ADVISORS

AAA Insights

Sept 2021

AAA IOP PMS
AWARD FOR BEST 10 YEAR PERFORMANCE
ACROSS CATEGORIES ON RISK-ADJUSTED RETURNS
PMS AIF WORLD FEB21

AAA IOP PMS
AWARD FOR BEST 10 YEAR PERFORMANCE
ACROSS CATEGORIES ON RISK-ADJUSTED RETURNS
PMS AIF WORLD FEB20

Sensex @60k, What next?

During the last six months, as Sensex is making new lifetime high, the investors are increasingly getting concerned about the market valuations. The common perception is that liquidity is a significant reason for a sharp rally in the global and Indian equity markets. While that is partially true, we firmly believe that in the long-term market mirrors earnings growth. High valuation multiples accompany strong earnings growth; hence, it is critical to understand the driving forces of earnings growth.

After a lull of almost the last 12 years, we expect corporate India to deliver strong double-digit earnings growth during the next 2-3 years. Our conviction is driven by 1. The big getting bigger; 2. Corporate India's strong balance sheet; 3. Healthy Government Capex; and 4. China+1 & PLI.

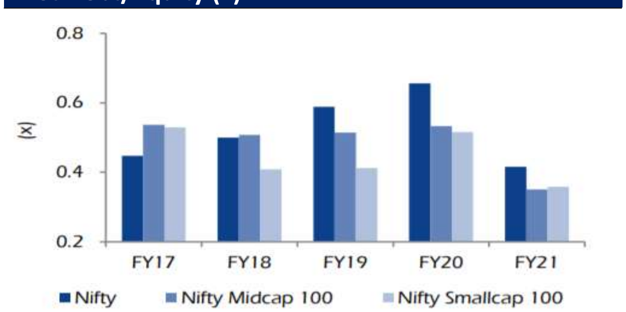
1. The Big is getting Bigger

In our previous note (read more), we mentioned the acceleration of formalisation in the country. Since then, the pace has intensified, driven by the second wave of pandemics and supply chain disruptions. The big players backed by the economics of scale are much better positioned than small players in managing supply chain challenges. They have also witnessed strong pricing power in the environment of rising inflation compared to small players. As a result, big players are witnessing gain in market share across sectors. That will result in solid revenue growth and earnings growth for such firms.

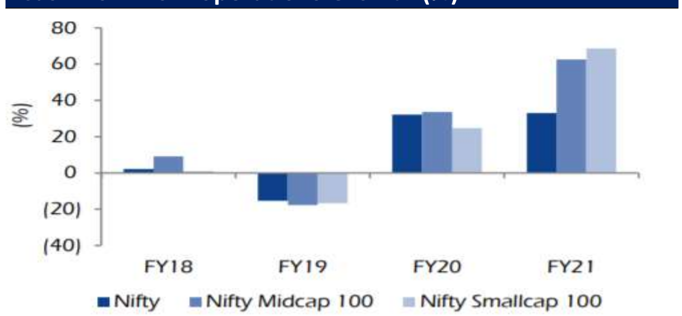
2. Corporate India deleveraging

During FY21, corporate India worked to restructure costs and preserve cash. That resulted in improvement in EBITDA margins despite plummeting sales. Moreover, as their cash flows conversions were healthy, they saw deleveraging across (Nifty net debt at 0.4x in FY21 against 0.7x in FY20). This improvement in the balance sheet will increase its capacity to borrow and lessen risk averseness in bond capital markets.

Net Debt/Equity (x)



Cash flow from operations Growth (%)



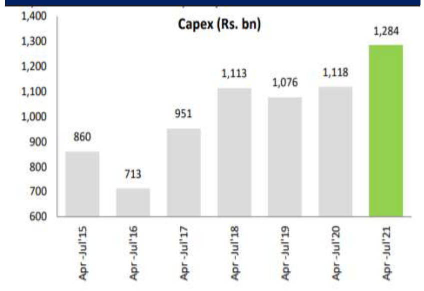
Source: AAA Research, Bloomberg, Elara Securities. All numbers are ex-financials.

3. Healthy Government capex

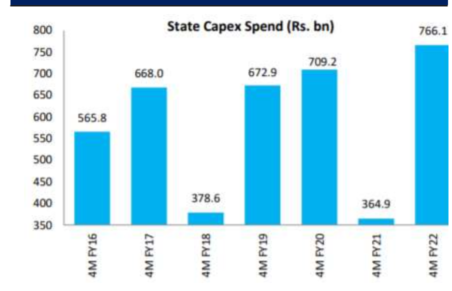
During the last few years, Government capex remained healthy despite pandemic. Further, the Government has announced National Infrastructure Pipeline (NIP) worth INR 111tn to drive upcoming government capex in the near-to-medium term. During Apr-Jul21, both Centre and collective State capex registered heathy growth despite pandemic challenges which shows the government's commitment to revive the economy.

Capex growth (%)

Centre Govt Capex (Rs bn)



State Govt Capex (Rs bn)



Source: AAA Research, Elara Securities, Spark Research.

4. PLI and China+1

Global supply chain diversification away from China has added renewed focus on India's manufacturing capability, which is finding further support from production linked incentives provided by the Indian government to boost output. Government has committed incentives worth INR 2trn through PLI scheme. This will help to revive capex cycle.

Equity Market Outlook

The strong earnings growth combined with improvement in ROE is a major reason for our positive view on the Indian equity market. While we do not rule out corrections, we advise investors to use bouts of volatility as an opportunity to add to the equity asset class with 3-5 years horizon.

Key Risks: Severe Covid third wave, the slower vaccination drive, significant increase in crude oil prices, geopolitical risks.

AAA PMS Performance

Compounded Annual Returns (%)	1 Year	2 Year	3 Years	5 Years	10 Years	AAA IOP SI*	AAA Focus SI^
AAA IOP PMS	59.4%	31.3%	19.4%	15.6%	21.3%	19.94%	NA
AAA FOCUS PMS	52.9%	27.4%	19.1%	15.5%	NA	NA	15.75%
BSE 500 Index	63.1%	28.7%	19.8%	16.8%	15.7%	12.9%	13.5%
BSE Midcap Index	73.6%	35.3%	20.9%	15.1%	16.7%	13.6%	15.0%
BSE Smallcap Index	90.4%	47.4%	26.1%	18.1%	16.3%	13.0%	15.1%
Nifty	58.5%	25.3%	18.6%	16.8%	14.9%	12.4%	12.6%
SENSEX	57.0%	25.0%	19.1%	17.6%	15.2%	12.5%	12.7%

*(23 Nov 2009 – 30 Sept 2021) ^ (7 Dec 2014 – 30 Sept 2021)

Performance is after all expenses and fees from April 2018 onwards. Prior to April 2018, the performance is after all expenses and Fixed Management fees. Index performance is calculated using Total Return Indices, as per SEBI guidelines.

Note: Returns of Individual clients may differ depending on the time of entry in the strategy. Past performance may or may not be sustained in the future and should not be used as a basis for comparison with other investments. Performance related information provided herein is not verified by SEBI.