Earnings Flurry

We have been bullish on Indian equity market as we believe that corporate India to deliver strong earnings growth. 2QFY22 results of corporate India, reconfirms our view on revival of earnings cycle. 75% of NSE200 companies declared results so far and that universe registered sales, EBITDA and PAT growth of 33%, 22% and 32%, respectively (on free-float basis ex-financials). Despite cost pressures, earnings beats have outpaced earnings misses so far. Below is the snippets of trends and views expressed by India's leading corporates:

Technology transformation at tipping point

On the back of the digital transformation wave, IT companies are talking about multi-year demand visibility. In its 2Q call, Infosys mentioned, "We are seeing strong demand and momentum across all regions. Our digital business grew by 42.4% year-on-year and now constitutes 56.1% of our overall revenues." Mphasis surprised the street by delivering 9.9% QoQ CC growth in the direct channel and indicated a substantial digital transformation drive. "Every enterprise is getting digitized, and hence, there is a stack investing supercycle that's playing out in the medium term, could even be longer than 3 to 5 years", says its CEO. While demand remains strong, so is the challenge to manage supply, as most IT companies reported an increase in attrition.

China +1 revolution gaining steam

Indian companies continue to gain traction as the world looks at China + 1 strategy. "There is a very strong inquiry flow. A lot of those opportunities are for newer products on the agro side. We are actually taking some of this business from some of the companies in Western Hemisphere", commented MD of Navin Fluorine during its 2Q conference call. Improving competence to global standards is critical in gaining customer acceptance, and Indian companies are doing their best to do the same. SRF comments "We are the only one, plus another company in China that has integration to keep raw materials for all the 3 HFCs. I don't see any singular player present across all 3 HFCs", proves the readiness of Indian companies to gain market share.

Capex recovery to gather pace

The industrial sector delivered a robust set of performance, surpassing street expectations and sounded optimistic about the future capex. ABB's management's commentary "….So yes, the CapEx visibility is there. Some of that is getting converted and some of that will get converted in maybe in a few quarters down the line or maybe a few years down the line, but that's what is visible to us at this point of time. Relative to 2 or 3 years ago, nobody was talking about any CapEx. There is a CapEx formation at least in the planning and the engineering stage with the customers." aptly captures our belief on recovery of capex cycle.

Consumer optimism

Titan's stellar performance says it all. "So now, with all cylinders firing, all stores open, all channels doing well, whether it is multi-brand or our EBO format, we hope to continue this streak. We are finding consumers back in the market..." is the statement from the head of its watch division reflecting improvement in consumer sentiment. Buoyancy in consumer sentiments also reflected in most banks retail disbursement growth. Commenting on strong 20% YoY domestic retail growth, ICICI Bank added – "With the increase in economic activity, disbursements across all retail products increased sequentially in this quarter. We are observing a steady uptick in the number of credit inquiries."

Inflation remains a concern

Inflation is undoubtedly a worry for most corporates from the automobile to the consumer sector. "Inflationary trend has been really unprecedented this year. We have never seen, I think, in the last about three to four decades, inflation, which is so strong, which is there, and overall inflation is closer to about 18% to 20% levels when we see from a perspective of Q3 of last year to that extent", said management of Asian Paints. However, while inflation will adversely impact margins in the short term, it accelerates our thesis of big getting bigger as reflected in Havells' Managing Director's comment, "In fact, in an inflationary environment, the relative gap between unorganized and organized sector reduces. The other thing is, we've also seen, though, we've been able to manage it well, there has been supply chain disruptions and for the organized sector, it is easier to manage as compared to the unorganized sector."

Equity Market Outlook

Globally, the US Fed is expected to announce the start of tapering this week, including key details on its plan's pace, timing, and composition to reduce asset purchases. The Fed's stance on "transitory" inflation will also be crucial. As far as rates, the fed funds futures markets is effectively pricing in at least two 25-basis-point increases in the target rate by the end of 2022.

Continued containment of Covid-19 cases in India, robust vaccination pace, and unlocking of economic activities have helped maintain the recovery rate for India. As a result, we expect corporate India to continue to deliver strong performance in upcoming quarters. While inflation remains a significant headwind, we believe that leaders will demonstrate pricing power, albeit with a lag of 1-2 quarters. Corrections are always welcome. They remove the excesses and provide opportunity to enter for long term gains. We reiterate our bullish stance on Indian equity market.

Key Risks: Severe Covid third wave, 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	58.6%	30.1%	21.2%	15.2%	21.2%	19.9%	NA
AAA FOCUS PMS	51.5%	26.2%	22.1%	15.3%	NA	NA	15.8%
BSE 500 Index	59.4%	26.4%	21.5%	16.5%	15.0%	12.9%	13.4%
BSE Midcap Index	71.4%	31.8%	21.3%	14.7%	16.4%	13.5%	14.8%
BSE Smallcap Index	89.5%	45.0%	26.6%	16.6%	16.1%	12.9%	14.8%
Nifty	53.5%	23.3%	20.8%	16.8%	14.1%	12.3%	12.5%
SENSEX	51.2%	22.9%	21.2%	17.6%	14.4%	12.5%	12.7%

*(23 Nov 2009 – 31 Oct 2021) ^ (7 Dec 2014 – 31 Oct 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.

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