

## Newsletter - July 2023

### Nifty scales 19K peak as India growth story remains positive but caution advised amid global slowdown.

On June 28<sup>th</sup>, the Nifty index decisively crossed the 19,000 milestone<sup>1</sup>, a big psychological barrier. The rally in the last three months has been strong and broad based and was led by better than expected results in few sectors, a major rebound in global tech stocks, and of course strong FII flows. FIIs has invested more than USD 10 billion in Indian equities since April 2023, a large number considering that FII flows were negative in the previous 12 months<sup>2</sup>. In this period, the Nifty has made a journey of 2000 points, from its April low of 17200<sup>3</sup> to its present mighty stance. In addition to robust institutional flows, the market has also witnessed domestic flows holding their ground following quarterly earnings. Our data indicates that the Nifty 50 constituents have slightly missed the street's estimates with an average earnings surprise of -3.20% (FY 2022-23) and revenue mostly in line with the expectations. Sectors like consumer discretionary and consumer staples have offered strong positive earnings surprises, with healthcare and financials slightly beating the market expectations.



**Raghvendra Nath**  
Co-founder, Managing Director

While the Nifty 500 has also indicated similar trends, here, the financials, consumer discretionary and real estate sectors have performed better than their peers. Further, 282 of its constituent companies have depicted earnings growth which are above expectations, as against 164 offering negative surprises and 24 being in-line with expectations. The numbers are undoubtedly looking good but they are sequentially mediocre. We expect the year-on-year data to appear better, given that we have now enjoyed two covid-free years. In the present scenario, the market is appearing a bit expensive amid richer valuations, with the PE ratio increasing across the board. This is somewhat concerning, especially in the light of weak rural data and news of electronic manufacturers and a majority of consumer durable players cutting down production, as this indicates poor off-take. Going ahead, all eyes are on the monsoon and its impact across industries. Currently, the rains are late by 10 days, indicating some deficiency but if we do have normal rains, it would augur well for the demand and market. We are also monitoring the impact of El Nino and keeping an eye on the US interest rate pause. **The US Federal Reserve's chairman has not offered any indication on policy stance being changed and we saw yields go up after the last announcement.**

**Further, slowdowns across major economies like China, Europe and US indicate cause for caution, despite the sparkling India story.** It is advisable to continue investing gradually rather than jumping on to the band wagon. While we are seeing a strong rally, it does not appear to have enough legs, given that it is driven largely by flows.



Source:  
1- <https://timesofindia.indiatimes.com/business/india-business/sensex-tops-64000-nifty-19000-on-strong-eco-fii-buying/articleshow/101351363.cms>  
2- <https://economictimes.indiatimes.com/markets/stocks/news/nifty-record-high-fii-buying-crosses-10-billion-mark-in-fv24/articleshow/101328215.cms>  
3- <https://indianexpress.com/article/business/market/equity-markets-live-updates-stocks-bse-sensex-nse-nifty-rupee-oil-prices-april-18-7874115/>

## Proud Portfolio

*A portfolio of stocks you will be proud to own and pass on through generations.*

Proud Portfolio for the month of **June 2023** continued its strong performance on back of strong FII Inflows to BFSI Sector. The diversification to lending as well as non-lending financials aided the portfolio returns. **The creation of behemoth of private sector bank post-merger, favourable SEBI regulations expected w.r.t. Total Expense Ratio and discretionary spending will enable the portfolio to ride the upcycle**

### Stocks in the news



#### HDFC AMC

HDFC AMC will be one of the beneficiaries as SEBI defers rationalisation of total expense ratio. SEBI is expected to come up with a second consultation paper around rationalising TER. The news led to surge in AMC companies between 8-13%.

#### HDFC Bank

The merger between largest private sector bank and largest HFC is nearing the completion. The stock moved towards 52 week-high reflecting that the sentiment of the investor has improved and the concerns regarding the merger has been assuaged by the bank.

#### HUL

The company will see transition in its leadership after a decade- Rohit Jawa will be the new CEO. The focus of the new CEO will be on volume growth along with margin expansion.

### Market update



#### FII Inflows

FII continues to pump in Indian Equity Markets reflected in strong inflows of Rs.47,184 Cr exceeding previous month inflow of Rs.43,838 Cr. The strong inflows by FII in BFSI sector pushed the Nifty 50 towards all time high and is currently trading at 19,100<sup>1</sup>

The sustainability of the ongoing rally hinges on the forthcoming result season wherein variables like credit growth, margin expansion, order book for capital goods companies, volume growth for FMCG companies, constant currency growth and management commentary with regard to demand would be, inter alia, the key monitorable for Q1FY24 result season.



#### India's net direct tax collection rises by 11.5%

The central government's net direct tax collections from Apr to June 15 of FY24 stood at Rs.3.77 lakh crore, an increase of 11.5% over the corresponding period. This growth, indicates expectation of better corporate performance and underlying economic growth.

#### Proud Portfolio Performance vs benchmark for May'23

Particulars	Proud Portfolio	BSE 500
1M	2.9%	4.3%
3M	14.4%	13.3%
6M	12.1%	6.8%
1Y	27.1%	23.5%
2Y	14.2%	10.7%
Since inception	26.7%	23.4%

Source: 1 CDSL site

## Fund Snapshot- HDFC Small Cap Fund

### Historical performance

Particular	FY 19	FY 20	FY21	FY 22	FY 23
HDFC Small Cap	0.92	-41.77	103.34	34.35	12.16
Nifty Smallcap 250	-12.44	-40.22	118.68	37.02	-6.03
Category Average	-6.74	-30.10	104.55	37.35	1.47

### Performance Snapshot

Particular	Return
HDFC Small Cap	12.12%
Benchmark	-7.02%
<b>Outperformance</b>	<b>19.15%</b>
Small Cap Category average	1.47%

### Top 3 sectors performance wise FY23

Sector	Weight	Sector Return	Contribution to fund return
Financials	11.8%	45.6%	5.0%
Industrials	27.9%	12.4%	3.6%
Information Technology	6.5%	40.5%	2.2%

### Top stocks as per performance

Company	Weight	Return	Contribution to fund return
Sonata Software Ltd	4.5%	57.3%	2.0%
Bank of Baroda	3.6%	50.2%	1.8%
Kirloskar Ferrous Indus Ltd	1.9%	118.3%	1.7%
Power Mech Projects Ltd.	1.4%	186.7%	1.5%
Great Eastern Shipping Co.	2.5%	93.7%	1.2%
<b>Total</b>	<b>14%</b>		<b>8%</b>

### Top stocks as per allocation FY 23

Company	Weight
Bajaj Electricals	4.5%
Sonata Software	4.5%
Firstsource solutions Ltd	3.8%
Bank of Baroda	3.6%
Eclerx Services	3.0%
<b>Total</b>	<b>19.4%</b>

### Summary

- The fund is managed by Mr. Chirag Setalwad since June 2014, he is currently the head of equities at HDFC AMC and has been with the company since March 2007. he has over 25 years of experience in fund management, equity research and investment banking.
- The fund performed significantly well compared to the benchmark with an absolute return of 12% and an outperformance of over 19%
- The returns can be attributed to both stock selection and sector allocation, however stock selection played a major role contributing 15.7% vs sector allocation which contributed 3.5%
- The top 3 performing stocks for the fund were Apar Industries, Power mech projects and Kirloskar Ferrous all of which rallied by more than 100% indicating the superior stock picking ability of the fund
- The top 3 sectors of the fund were financials, Information Technology and Industrials
- Within Financials the fund was overweight on PSU banks namely Bank of Baroda, IDFC, Indian bank, DCB Bank and Federal bank which played out very well as these stocks rallied by 30%-90%
- Even though Indian IT sector was facing headwinds, the fund's concentrated bet on Sonata Software withing this sector proved to be profitable showing the funds ability to pick stocks even in a downturn sector
- The funds investment in Apar Industries and Power Mech within the industrial sector was an extremely promising investment as they gave returns of 260% + 150%+ respectively