PELICAN PMS
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Cognizance

Monthly Market Outlook and Commentary

Asset Class	Benchmark	Latest Value	MTD (%)	YTD (%)	52 WEEK HIGH	52 WEEK LOW
			Equity			
India	Nifty 50	17158	8.73%	-1.13%	18604	15183
US	S&P 500	4130	9.11%	-13.34%	4793	3666
Europe	Euro Stoxx 50	3708	7.31%	-13.73%	4388	3447
Japan	Nikkei 225	27969	5.97%	-2.86%	30669	24717
China	Shanghai comp	3258	-4.12%	-10.48%	3715	2975
			Bond			
India	10 yr G-Sec	7.32	-1.74%	13.49%	7.54	6.13
US	10 yr treasury	2.67	-7.61%	76.82%	3.48	1.18
			Others			
Bullion	Spot Gold USD/ oz	1753	-2.98%	-3.91%	2050	1728
Metals	LME metal index	3848	-0.78%	-15.55%	5505	3848
Currency	USD/INR	79.21	-0.33%	-6.03%	80.21	72.94
Commodity	WTI Crude USD/ bbl	98.62	-6.93%	30.11%	124.76	61.92

Market Commentary

July witnessed a good recovery for the Nifty which had dropped to its lowest point in the year during the previous month. The benchmark rose 9% for the month in line with all major global indices. Fed was unrelenting in increasing interest rates and this time they hiked it by 75bps taking the fed funds rate to 2.5% from near zero six months ago, RBI is expected to follow suit soon. Metals and IT have had significant earnings downgrades this quarter while other sectors indicated stress due to higher operating costs.

The significant decline in PE levels in June warranted 75% exposure to equities as per our model and we had deployed accordingly. Post the rise in July our exposure for fresh funds is at 50%.

Update on portfolio companies:

1. **Reliance Industries:** RIL reported consolidated revenue of Rs 2231bn higher by 54.5% YoY, in 1QFY23. Consolidated PAT increased by 40% YoY. O&G revenue grew ~3x YoY to INR 36bn and EBITDA improved ~4x YoY to INR 27bn, driven by sharp improvement in price realisaton and higher production from the KG D6 block. Production may improve further as the KG D6 MJ field is likely to start production Q3FY23 onwards. O2C revenue increased by 56%, mainly due to better transportation fuel cracks. Crude throughput stood at 19.8mmt, up +4% YoY, +3% QoQ. Production declined to 16.9mmt (-2.3% QoQ), due to planned shutdown at Hazira and DHDS (diesel hydrodesulphurisation) unit. RJIO, revenue improved to INR 285bn higher by 21% YoY due to higher ARPU of INR 176 (+27% YoY, +5% QoQ). Gross subscriber addition in Q1 was at 35.2mn, while net subscriber addition improved by 9.7mn QoQ, after seeing a decline over the last three quarters due to SIM consolidation. The total customer base stood at 419.9mn in Q1. In Q1, RIL's net debt increased to INR 577bn (vs net debt of INR 348bn as of Mar-22) on account of higher working capital requirement due to increase in energy and product prices. Reliance Retail, revenue grew 54% YoY to INR516bn. Footfalls stood at 119% of pre-COVID levels. Digital + New Commerce contribution remains healthy at 19% of core retail sales. It added 792 stores of a total area of 3.3mn sq. ft in Q1 totaling 15,866 stores

2. **Ultratech cement:** UltraTech Cement's 1QFY23 consolidated EBITDA at Rs31bn (down 6.4% YoY), EBITDA/tn was at Rs1,236/tn (up 11.4% QoQ), owing to better realisation and cost management. Volumes grew 17.4% YoY to ~24MT (83% utilisation vs 73% YoY), implying a 3-year volume CAGR of 6% vs the estimated industry CAGR of 4.5%. While petcoke prices have corrected by 10% MoM in Jul'22 till date, the company has also started sourcing low-cost Russian coal in small quantities, the company expects fuel cost/tn to rise QoQ in 2QFY23 owing to high-cost inventory. PAT declined by 7% YoY.

3. **Asian Paints:** 1QFY23 consolidated revenue grew 54% YoY to Rs 86bn. Decorative business clocked 37/59% volume/value growth in Q1. Tier 1/2 cities continue to grow faster than Tier 3/4 cities. Network expansion remains strong (added 5k new retail points in Q1; total count: 150k+). Sri Lanka and Egypt remain weak spots as high inflation, regional disturbances, and forex crisis create havoc. While the worst phase of margin pangs may be behind the industry, future price hikes are likely to be measured to avoid testing demand elasticity.

4. **HDFC Bank:** While net interest income increased 15.9% YoY for 1QFY23 operating profit before provisions remained flat. Provisions declined by 31% YoY taking the PAT to Rs 9617cr higher by 21%. Commercial and rural banking (CRB) advances were up 28.9% YoY while retail and corporate loans grew by 21.7% and 15.7% YoY respectively. Other income, excluding MTM losses, grew by 35.4% YoY driven by 38.0% YoY growth in fees income. The bank suffered losses of INR 1,311.7 cr on revaluation of investments due to a rise in interest rates. Deposits grew by 19.2% YoY with retail deposits stable at 82%.

5. **Larsen & Toubro:** LT posted revenue of INR 358.5bn (+22.2%/-32.2% YoY/QoQ). International sales contributed 37% to revenue. The group level EBITDA came in at INR 39.6bn (+24.8%/-39.3% YoY/QoQ). EBITDA margin, at 11% (10.8%/12.3% in Q1FY22/Q4FY22), was impacted by cost headwind and change in job mix. Consequently, APAT was at INR 17bn (+44.9%/-53% YoY/QoQ),

aided by lower tax (INR 1.3bn one-time credit). LT has restated its guidance for 12-15% YoY growth in FY23 revenue with EBITDA margin in projects and manufacturing business at 9.5%. Real estate segment is also witnessing good traction, with INR 6.5bn Q1FY23 presales.

6. **Bajaj Finance:** BAF reported strong NII/PPoP growth (+43%/37% YoY), led by healthy disbursements (YoY AUM growth at 28%) and +60bps QoQ reflation in NIMs (11.6% of AUM) despite increasing competitive intensity. Cost-to-income ratio clocked in at 36% and it is likely to remain elevated during FY23-FY24, led by investments in new initiatives and customer additions. BAF has articulated a roadmap of doubling its AUM by Mar-25, implying 26% CAGR. The ongoing investments in next-gen initiatives for existing and new-to-franchise clients are largely aimed at sustaining BAF's customer acquisition funnel (customer franchise currently at ~60mn) and improving the engagement levels with seamless customer journeys.

7. **Maruti:** MSIL's revenue/EBITDA/PAT grew 49%/133%/130% YoY to Rs265b/Rs19b/Rs10b, respectively. Moderating commodity prices will auger well for the margins going forward. The new Brezza has got ~70k bookings so far, with over 50% of the bookings for the top two premium variants. The recently launched Grand Vitara is developed by Suzuki and will be produced by Toyota. This model will be exported as well. Grand Vitara has got ~20k orders, with over 45% of those bookings are for the strong hybrid variant.

7. **Hero Motors:** Accenture has tied up with Hero motor to use its zero-based supply chain (ZBSC) approach to facilitate Hero MotoCorp's cost optimization efforts across its supply chain. It will also deploy a supply chain control tower, powered by data and analytics, to enable better supply chain and logistics planning.

S.NO	COMPANY	TOTAL INCOME			PAT		
		1QFY23	1QFY22	Chg(%)	1QFY23	1QFY22	Chg(%)
1	HDFC BANK	44,202	38,934	13.53%	9,617	7,940	21.12%
2	L&T	36,548	29,983	21.90%	2,228	1,532	45.43%
3	MARUTI	25,288	16,799	50.53%	1,068	475	124.84%
4	RELIANCE	2,25,360	1,48,591	51.66%	19443	13806	40.83%
5	BAJAJ FINANCE	9,283	6,782	36.88%	2,596	1,002	159.08%
6	ASIAN PAINTS	8,706	5,675	53.41%	1,036	574	80.49%
7	ULTRATECH	15,272	12,034	26.91%	1,582	1,700	-6.94%

In Rs. Cr

About Pelican

Pelican Holdings Pvt Ltd. (PHPL) was established in the year 2003 as part of the multi-faceted Pelican Group which has interests across Capital markets and Corporate advisory. For nearly two decades the Pelican Group and its Partners have served as successful advisors to clients investing across various asset classes.

Pelican PMS Portfolio Management strategy is developed based on the strong understanding of trends and solid backing of temperament. The robust process aims to reduce the component of subjectivity and minimizes the conventional errors committed by investors, while at the same time offering significantly higher risk adjusted returns.

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