Identifying the portfolio laggards

Date – 19/10/2022

We are very bullish on the markets for the next 30 months after being cautious for most of 2022. Hence, we have decided to add beta to the portfolio. Further, in line with our theme that global economy will suffer due to inflation, we are switching our portfolio's global economy exposure to domestic. We are doing complete exits of 4 stocks (either high export oriented or low beta) and adding 3 stocks that are driven more by domestic consumption theme

Complete exit

- Wipro
- Kotak Bank
- Samvardhan Motherson
- ITC

New entry

- Bank of Baroda
- Ambuja Cements
- United Spirits

Complete Exits

Date – 19/10/2022

Wipro

- Over the last 4 quarters, margins have compressed ~500bps to 15% which is highly disappointing and we believe it will take sometime for reversal. Even 2QFY23 revenue growth of 3.2% q-o-q in CC terms is below street expectations
- The stock has seen a de-rating and has under performed major IT stocks primarily due to the above

ITC

- ITC has been a massive outperformer to the FMCG index and we believe that partially demerger is in price
- The current valuations seem fair and we are booking profits in the stock as the it has crossed our target price

Samvardhana Motherson (SAMIL)

- With global economy reeling under inflationary pressures, we believe pure global auto & auto-ancs players will feel the heat
- SAMIL, being a pure global player, could witness headwinds

Kotak Bank

- Credit growth is back in the system. Kotak Bank, being a defensive player, may not grow as aggresively as others And valuations are also not cheap
- Hence we believe a switch to more aggressive player like Bank of Baroda should yield better returns

Ambuja Cements

- Over the last 5-7 years all players except ACC and Ambuja Cements were in expansion mode. Ambuja has annouced Rs 35 bn capex and with Adani coming in, this expansion will be more aggressive – additional capex announced in Rajasthan to double the cement capacity. It has also raised Rs 50 bn from warrants issue to Adani group company
- This should lead to better earnings growth and hence could re-rate the stock. We are cognizant of the promoter and pledge risk and hence we will be watching it very closely

Bank of Baroda (BoB)

- Like SBI of 2018, BoB has cleaned its balance sheet over the last 12-18 months. The increased credit growth provides enough tailwind to the sector. BoB is well placed to capitalize on the same
- Further, the fee income business is also doing well. We believe that these tailwinds are yet to reflect in the price and the stock could see a re-rating

United Spirits

- Consumer demand remains resilient in off-trade as well as recovery is better in the on-trade channels. The earnings growth should improve going forward with increased focus on high margin accretive business
- The valuations seem attractive with higher margin of safety in comparison to other consumption stocks

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