



Citrus Advisors

The A B C Analysis of the market
(Adani **B**udget **C**redit Policy)

10th February 2023

How did the Adani Group Companies fare?

Adani Group Shareholders and Valuation

Name of the Company	No of Shareholders	FII(%)	DII(%)	P/E(TTM)
Adani Enterprises Ltd	2,53,432	15.39	5.45	204
Adani Transmission Limited	1,52,432	19.32	3.78	137
Adani Ports & Special Economic Zone Ltd	7,32,360	13.77	14.46*	25
Adani Green Energy Limited	3,93,167	15.14	1.40	201
Adani Power (APL)	14,88,295	12.88	0.00	6.93
Adani Total Gas Ltd	1,36,022	17.25	6.09	316
Adani Wilmar Ltd	10,05,433	1.57	0.14	74.3
ACC Ltd	1,31,412	11.95	18.64*	51.4
Ambuja Cements Ltd	4,68,816	10.66	16.71	37.1

* Also Includes ETFs

Name of the Company	52W High	CMP (8th Feb)	52W Low	Fall from peak(%)	Recovery from bottom(%)
Adani Enterprises Ltd	4,190	1,927	1,017	-75.7%	89.5%
Adani Transmission Limited	4,239	1,294	1,194	-71.8%	8.4%
Adani Ports & Special Economic Zone Ltd	988	582	395	-60.0%	47.3%
Adani Green Energy Limited	3,050	762	762	-75.0%	0.0%
Adani Power (APL)	433	173	106	-75.5%	63.2%
Adani Total Gas Ltd	4,000	1,324	1,321	-67.0%	0.2%
Adani Wilmar Ltd	878	440	272	-69.0%	61.8%
ACC Ltd	2,785	1,916	1,696	-39.1%	13.0%
Ambuja Cements Ltd	598	358	274	-54.2%	30.7%

Adani episode – Key issues

- **Valuation**
- **Credibility**
- **Politics**
- **Consequences**

A Win-Win Budget

Positives

- **Strong thrust on Infrastructure spending**
 - Capex Outlay of 10 lakh crs, up 33% yoy at 3.3% of GDP. Capital outlay for Railways at 2.4 lakh crs which is highest ever.
 - Effective Capital Expenditure of the Centre is budgeted at Rs 13.7 lakh crore (c. 4.5% of GDP) incl grant- in aid to states
 - PM Awas Yojana outlay up 66% yoy to 79,000 crs.
- **Change in Personal Income tax slabs under the new regime that would lead to boost in consumption**
 - Tax rebate extended on income up to Rs 7 lakh in new tax regime (vs. 5 lakhs earlier). Highest surcharge rate has been reduced to 25% from 37% earlier.
- **Focus on fiscal consolidation intact**
 - FY23 Fiscal deficit target maintained at 6.4% (as per budget estimates). FY24 target at 5.9% of GDP and aims to bring it down to 4.5% by FY25-26
- **No negative surprise on Capital gains in equity markets**

Negatives

- **Changes in taxation of proceeds from non-participating insurance policies for premiums > 5 lakhs/annum**
- **Income from Market linked Debentures (MLD) to be taxed as short term capital gain (STCG) – negative for NBFCs that used to source liabilities via this route.**
- **Capital gain tax exemption through investing in residential property to be capped at Rs 10 crores (of capital gain)**

Credit Policy – Nearing the end of rate hike cycle

- **RBI hikes repo rate by 25 bps to 6.5%**
 - Policy Actions in-line with market expectations
 - GDP forecast for FY23 at 7% vs. 6.8% earlier and FY24 growth expected at 6.4%
 - Inflation forecast for FY23 lowered by 20bps to 6.5% and FY24 inflation forecasted at 5.3% (which is higher than street ests). The governor mentioned that the forecasts assume Crude Oil prices at \$95/barrel
- **Continues with the stance of “withdrawal of accommodation”**
 - The rate hike cycle is not yet over given the central banker’s tone on uncertainty in geopolitical tensions globally, volatility in crude oil prices

Markets: The way forward



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Top 10 issues for 2023

- 1. Interest rates and inflation
- 2. Global Recessionary fears
- 3. Strong Domestic economy
- 4. Union Budget
- 5. Brace for a VUCA world

- 6. FII/DII flows
- 7. Elections/Politics
- 8. Earnings to take centre stage
- 9. Sectoral leadership of the market may change
- 10. search for the winning asset class

Earnings are still not showing a clear picture

	YoY	QoQ
Banks and Insurance		
PAT	25.5%	11.1%
Ex- Banks, NBFCs and Insurance		
Net Sales	17.0%	1.6%
EBITDA	3.3%	20.5%
PAT	-4.5%	30.4%

	Q3FY23	Q2FY23	Q1FY22
EBITDA Margin %	13.7%	11.6%	15.6%

- Q3FY23 earnings are a mixed bag with the Banking and Financial sector picking up the slack from the other sectors
- The rural demand is still weak and the Budget relief to urban middle class will need to boost domestic consumption
- Softening commodity prices are both good (improving the margins of user industries) and bad (reducing the aggregate profits of producers)

Will H2FY24 be better than H1

- **RBI outlook in the Credit Policy of 8th Feb 2023**

RBI OUTLOOK		
	FY24	
	GDP	CPI Inflation
Q1	7.80	5.00
Q2	6.20	5.40
Q3	6.00	5.40
Q4	5.80	5.60
FULL YEAR FY24	6.40	5.30
FY23	6.80	6.50

How are our Portfolios Positioned?



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Positioning of PMS Strategies

Midcap Strategy

- Continue to hold consumer facing stocks. Within this, we replaced a consumer durables player in our midcap portfolio with a strong hospitality franchise to take advantage of the strong tailwinds in the Hotel industry (rising room rates, increasing occupancy, strong demand).
- Our bets on cyclicals is now paying off with the stocks in the portfolio showing strong performance. Budget thrust on Infrastructure is likely to boost their fortunes further
- Fully invested at these levels with nil cash.

Multicap Strategy

- Went overweight on PSU Banks and took a fresh position to take advantage of the bank's improving asset quality and corporate loan mix
- Booked Profit in one of the leading auto ancillary players with strong exposure to 2 Wheelers and replaced it with a leading midcap IT services player that has delivered industry leading growth over the last 2 years
- Reduced weight in Autos but still overweight vis-à-vis the benchmark
- No exposure to Metals and commodities as we exited the counters in H1FY23

Midcap Portfolio Strategy

Theme	Sector	Actual Weight	Rationale
Consumer	Consumer	30%	Buying on dips. <i>We replaced the leading contract manufacturer of Room ACs (RACs) with a leading Hotel operator with a strong franchise.</i>
	Building Materials	9%	Buying on dips.
	Financials	5%	Booked some partial profits in the only NBFC to rebase the weight increase due to market effect. Have exposure to a diversified NBFC player that has seen strong growth across segments (Housing, SME lending and Gold Financing)
	Niche Business	4%	Fully invested.
Consumer	Sub-Total	48%	
Cyclicals	Cyclicals/Industrials	34%	Fully invested. The increase in weight is due to strong run up of some of the cyclical companies. We booked partial profits in some of these to trim their weights
Exports	Chemicals	7%	Fully invested. One of our portfolio companies saw divestment of their Pharma sub-segment.
	Healthcare/Pharma	7%	Fully invested.
	IT services	4%	Fully invested.
Exports	Sub-Total	18%	
Cash		0%	We used cash to buy our portfolio companies on dips

- Well placed with ~48% exposure to Consumer facing sectors (recent changes included addition of hospitality players)
- Exposure to cyclicals is a proxy play on infrastructure

Multicap Portfolio Strategy

Sector	Actual Weight	Rationale
Financials	30%	Fully Invested. We added a PSU Bank with ~5% allocation, which is the 4 th largest PSU Bank in India. <i>Nearly 3% of our overall portfolio is exposed to a leading insurance player.</i>
Cyclicals	15%	Fully Invested.
IT	11%	Buying on dips. We added a mid-cap IT player that has delivered industry leading growth and has a diversified exposure to Healthcare, Hi-Tech and BFSI.
Autos	10%	We reduced our weight in Autos as we booked profits in one of the auto ancillary players with exposure to 2W and 25-30% exposure to Europe. We replaced it with a mid-cap IT services player that has outperformed its peers
Consumer	10%	Buying on dips
Chemicals	7%	Fully invested. Exposure to a leading Agrochem CSM and Fluorine specialty chemical manufacturer.
Diversified	7%	Fully Invested.
Pharma	6%	Fully Invested
Telecom	4%	Fully invested
Cash	0%	

- Strong exposure to Financials, with nearly 3% of overall exposure to insurance players, that was negatively impacted by Budget announcements.
- Continue to hold financials despite negative sentiments on a conglomerate. Most of the leading companies clarified on the exposure

Our Performance

Portfolio Strategy vs. Benchmark	1M	3M	6M	12M
Citrus Mid-Cap Portfolio**	1.6%	1.3%	13.4%	3.7%
Nifty Mid-Cap 100 Index	-2.6%	-2.4%	3.5%	1.3%

Portfolio Strategy vs. Benchmark	1M	3M	6M	12M
Citrus Multi-Cap Portfolio**	-3.9%	-2.5%	4.8%	0.7%
BSE 100 Index	-2.7%	-2.6%	2.3%	1.8%

** Portfolio Returns are on weighted average basis for the whole corpus. Point to Point Returns for clients would vary

** Portfolio Returns are as of Jan 31st 2023



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Relative Performance

- Midcap Strategy

Peer Performance as on 31st Dec 2022						
AMC Name	Strategy	Category	1-Month	3-Month	6-Month	1-Yr
Marcellus Investment Managers	Little Champs	Small Cap	6.17%	-9.22%	4.58%	10.55%
Citrus Advisors	Concept MidCap	Mid Cap	0.90%	5.40%	20.10%	-0.50%
Abakkus Assest Manager LLP	Abakkus Emerging Opp	Small & Mid	-0.50%	8.20%	17.70%	-4.50%
Marcellus Investment Managers	Rising Giants	Mid Cap	-5.71%	-8.98%	4.64%	-22.48%

Relative Performance

- Multicap Strategy

Peer Performance as on 31st Dec 2022

AMC Name	Strategy	Category	1-Month	3-Month	6-Month	1-Yr
Citrus Advisors	Concept Multicap	Mullti Cap	-0.60%	6.20%	18.40%	4.50%
Abakkus Assest Manager LLP	Abakkus All Cap Approach	Mullti Cap	-0.20%	8.60%	18.30%	-1.30%
Helios Capital	India Rising	Mullti Cap	-2.26%	0.84%	14.77%	-3.76%
Alchemy	Select Stock	Mullti Cap	-4.09%	-4.55%	8.31%	-4.81%
Ask Investment Manager Ltd	Growth Portfolio	Mullti Cap	-3.08%	-3.63%	15.51%	-5.96%
White Oak Capital Management	India Pioneers Equity	Flexicap	-3.39%	-0.10%	13.65%	-6.60%
Ask Investment Manager Ltd	India Select Portfolio	Mullti Cap	-4.14%	-2.72%	12.30%	-7.69%
Alchemy	High Growth	Mullti Cap	-4.07%	-1.36%	12.02%	-7.74%
Ask Investment Manager Ltd	Indian Entrepreneurship Portfolio	Mullti Cap	-4.10%	-4.26%	11.25%	-8.25%
Marcellus Investment Managers	Consistent Compounders	Mullti Cap	-3.71%	-3.21%	12.46%	-8.82%
Alchemy	Ascent	Mullti Cap	-5.58%	-1.09%	11.82%	-11.81%

STUDIES

Our recent views

- Sensex at 50K – Does the rally have more legs: 12th Feb 2021
- Covid 2nd Wave : The Road Ahead: 19th Apr 2021
- Covid 2nd wave – an Update: 20th May 2021
- The Rally of 2020 – how irrationally exuberant – 22nd June 2021
- Does it make sense to invest with Nifty at almost 16000 points – 29th June 2021
- Q1FY22 takeaways – Not too many surprises – 29th August 2021
- Top 10 issues for 2022 : 25th Jan 2022
- Russia Military Action in Ukraine (First-Cut Views) – 24th Feb 2022
- Crystal Ball Gazing- How do we see the next decade shaping up? : May 2022
- Debt Investment Strategy: June 2022
- Dark Cloud with Silver Linings: 7th July 2022
- Top 10 Issues for 2023: 16th Jan 2023

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