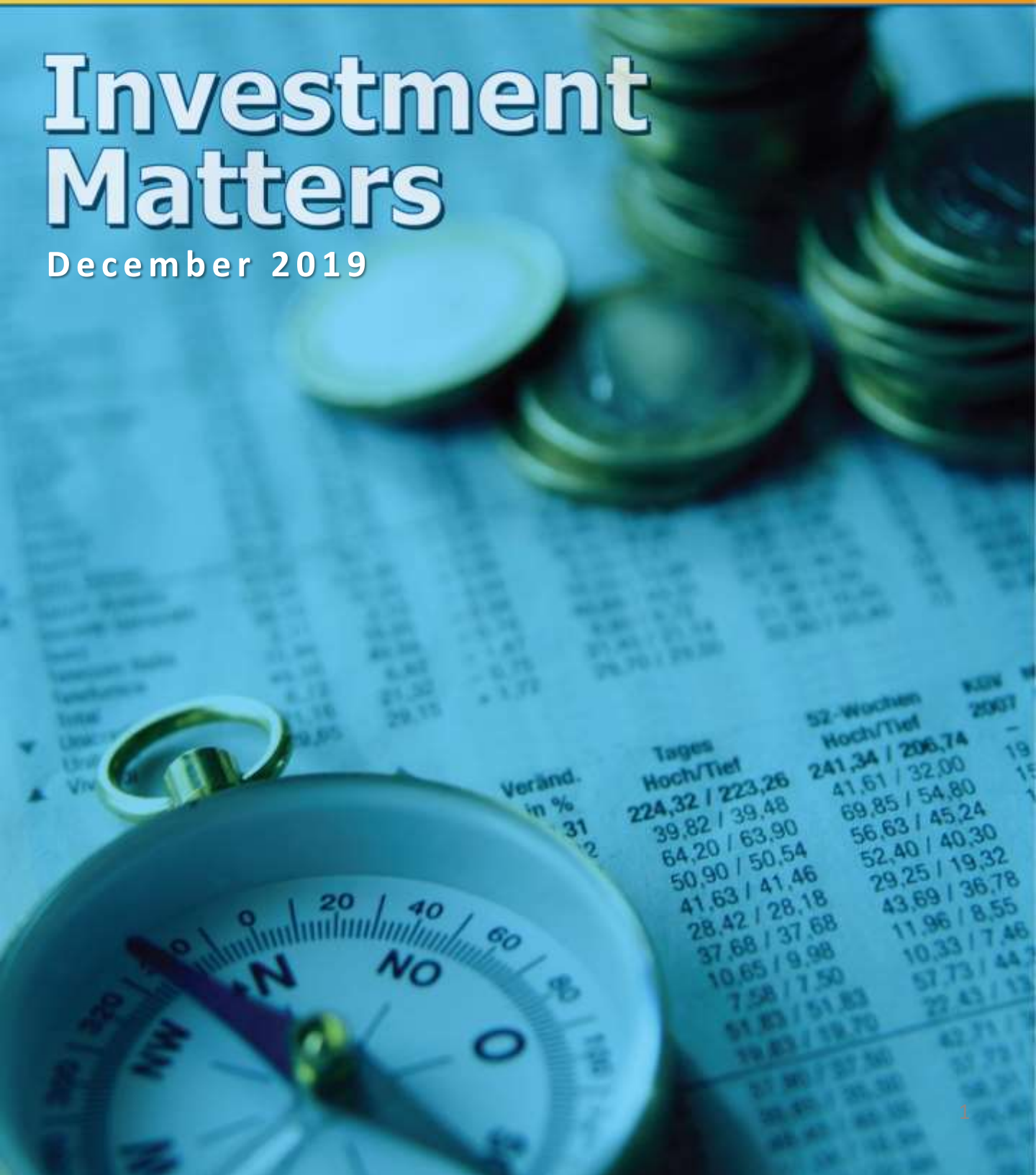


Investment Matters

December 2019



EQUITY OUTLOOK

Markets pausing for breath...

The markets remained resilient through November 2019 with the Nifty rising 2.2% and the NSE Midcap rising 5.7%. The NSE Bank was one of the key sectoral indices, rising >8% this month.

The concurrent indicators for the economy remained weak. Industrial growth was sluggish and the Index of Industrial Production (IIP) delivered a negative print for October 2019. Exports also remained sluggish with a 1.1% contraction for October 2019. The worrying sign is that bank credit growth remains stubbornly low at 8.1% y/y. Compounded with the weak growth for NBFCs and the bond market; this remains an impediment to growth. This weakness is reflected in the GDP growth for 2QFY20, which came in at 4.5%.

Some positives are, however, coming through. As we discussed last month, interest rates are continuing to head southwards, aided by both RBI rate cuts and transmission. The monsoons have been strong and this should aid a recovery in rural sentiment. The deflation of food prices would also help in improving cash flows to the farming and rural segments. Additionally, you may also read the views from HDFC Bank in The Print (<https://theprint.in/economy/hdfc-bank-sees-signs-of-economy-reviving-in-rural-and-semi-urban-areas/329435/>) *

The policy environment is improving with some significant events this month.

- The Supreme Court judgment on the Essar Steel insolvency was a major positive for the banking sector. It resolves many of the uncertainties surrounding the IBC process, and this will help banks recover future NPAs faster, with lower losses. This should be positive for corporate banks like ICICI Bank and Axis Bank.
- The Cabinet approved the privatization of Air India and BPCL this month. These have twin benefits – not only does the stressed fiscal get a boost but it also helps improve efficiencies in the economy as ownership transitions from the state to private hands. There are still some obstacles in execution but the intent of the government is a good sign.
- The Lok Sabha took up the Industrial Relations Code Bill – this could form the basis for significant labour reform. Rigid labour laws are seen as an impediment to the investment cycle.

The key risks remain unchanged. The real estate sector is a pain point and the source for much of the stress in the financial sector. The government's proposed Alternative Investment Fund (AIF) is a good step but would take time to impact. The other source of pain is the fiscal deficit – weak growth is translating to sluggish revenues, which are now lagging behind the budget forecasts.

EQUITY OUTLOOK

We are slowing our deployment as the post-September 2019 rally has stretched valuations for the portfolio companies. On the other hand, the continued weakness in the economy does not give us confidence to go down the quality curve. We will watch the market till the next Budget in end-January 2020 for further cues.

Seshadri Sen
Head of Research
Alchemy Capital Management Pvt. Ltd

Source-Alchemy Research

Q2FY20 Performance of Portfolio Companies

The following table summarises the performance of portfolio companies in Q2FY20 :

Stock	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q2FY20	Q2FY19	% Change	Q2FY20	Q2FY19	% Change	Q2FY20	Q2FY19	% Change
Asian Paints	50,507	46,155	9%	9,548	8,447	13%	8,263	4,923	68%
Avenue Supermarts	59,490	48,725	22%	5,154	3,896	32%	3,334	2,257	48%
Axis Bank	99,976	79,105	26%	-	-	-	-1,121	7,896	-114%
Bajaj Auto	77,073	80,363	-4%	12,781	14,141	-10%	14,024	11,525	22%
Bajaj Electricals	10,918	15,984	-32%	238	799	-70%	-330	341	-197%
Bajaj Finance	39,991	27,079	48%	-	-	-	15,063	11,952	26%
Bajaj Finserv	142,242	96,984	47%	-	-	-	12,037	7,040	71%
Bandhan Bank	18,893	14,986	26%	-	-	-	9,718	4,279	127%
Container Corporation of India	17,387	16,389	6%	4,255	4,033	6%	-3,220	2,278	-241%
Delta Corp	2,008	2,014	0%	879	845	4%	589	481	22%
Godrej Consumer Products	26,082	26,418	-1%	5,749	5,385	7%	3,871	2,961	31%
HDFC Bank	191,038	157,790	21%	-	-	-	63,450	50,057	27%
Hindustan Unilever	98,520	92,340	7%	24,430	20,190	21%	18,480	15,250	21%
ICICI Bank	122,517	95,741	28%	-	-	-	6,550	9,089	-28%
Info Edge (India)	3,166	2,650	19%	993	825	20%	859	781	10%
L&T Technology Services	14,021	13,475	4%	2,832	2,727	4%	2,058	2,039	1%
Mahindra & Mahindra	109,351	127,902	-15%	15,408	18,493	-17%	13,548	16,412	-17%
Pidilite Industries	18,066	17,574	3%	3,682	3,648	1%	3,217	2,316	39%
Qess Corp	26,503	23,947	11%	1,614	1,473	10%	606	539	12%
Ramco Cements	12,824	11,413	12%	2,609	2,049	27%	1,682	1,145	47%
Sterling & Wilson Solar	11,933	24,725	-52%	947	293	223%	794	584	36%
Sundram Fasteners	7,668	9,986	-23%	1,380	1,758	-22%	711	1,107	-36%
Syngene International	4,646	4,186	11%	1,194	1,315	-9%	567	782	-27%
Tata Consultancy Services	389,770	368,540	6%	102,260	102,780	-1%	80,580	79,270	2%
Tata Elxsi	3,858	4,028	-4%	705	1,067	-34%	500	822	-39%
TCNS Clothing Co	3,208	3,205	0%	400	570	-30%	202	412	-51%
Thomas Cook	17,000	15,999	6%	76	118	-36%	38	-54	170%
Titan Company	46,616	45,672	2%	5,223	4,979	5%	3,117	3,301	-6%
Trent	8,180	6,159	33%	1,386	592	134%	383	329	16%
United Breweries	15,786	15,260	3%	1,925	3,182	-40%	1,151	1,645	-30%
United Spirits	72,819	71,250	2%	4,156	4,429	-6%	2,246	2,587	-13%
Varun Beverages	17,397	11,657	49%	3,257	2,112	54%	807	423	91%
V-Mart Retail	3,142	2,622	20%	113	-14	907%	-180	-16	-1025%
Zee Entertainment Enterprises	21,220	19,759	7%	6,929	6,757	3%	4,133	3,861	7%

PMS PRODUCT PERFORMANCE

Alchemy High Growth (AHG)

Investment Objective*: The objective is to generate long-term returns by investing in equities and equity related instruments across market capitalizations, but with a strong mid-cap bias.

Fund Manager: A Chartered Accountant by profession, Mr. Amit Nadekar has worked across equity research, corporate strategy, taxation and audit over the last one and a half decades. He started his career on the sell side, tracking the US banking & financial sector; later moving on to the corporate side as a part of the Corporate Strategy team at Raymond. He has been a part of the Alchemy investment team since 2005.

Strategy* at a glance:

Category:	Equity Diversified
Fund Style:	Multi-cap Growth
Type:	Open Ended
Launch Date:	8 th May, 2002
Benchmark:	S&P BSE 500
Min investment:	Rs. 25 lacs

Portfolio Action:

In November 2019, the portfolio exited from Mahindra CIE , Greaves Cotton, Dishman Carbogen and BASF India

Mahindra CIE:

- Investment hypothesis was that the company through diversification in product portfolio and customer profile would be able to grow faster than market and also keep improving its margin profile leading to higher ROE/ROCE which in turn would have led to a re-rating of the valuation multiples.
- While sales growth has been better than industry even during downturns, it has an adverse impact on the margin improvement trajectory which gets delayed by a few quarters.
- Auto market has slowed down in recent quarters both in India and Europe. The outlook is not positive either; at least in next few quarters. This in turn leads to muted earnings growth over the next few years.

Greaves Cotton:

- Investment hypothesis was that the company's earnings would grow at a steady CAGR of 15-20%+ over the next few years based on diversification into high margin after sales business and entry into 4W diesel engines for LCVs.
- However, that thesis hasn't played out as producing diesel LCVs has become cost-prohibitive post BS6 emission norms.
- In addition, 3W diesel engine business faces challenges with growing electrification leading to lesser demand for 3W in general.

* The product's objective and strategy are merely a target and there are no assurance that it would be achieved.

* Please read the Disclosure Document/ Client Agreement for complete details

PMS PRODUCT PERFORMANCE

Alchemy High Growth (AHG)

Dishman Carbogen

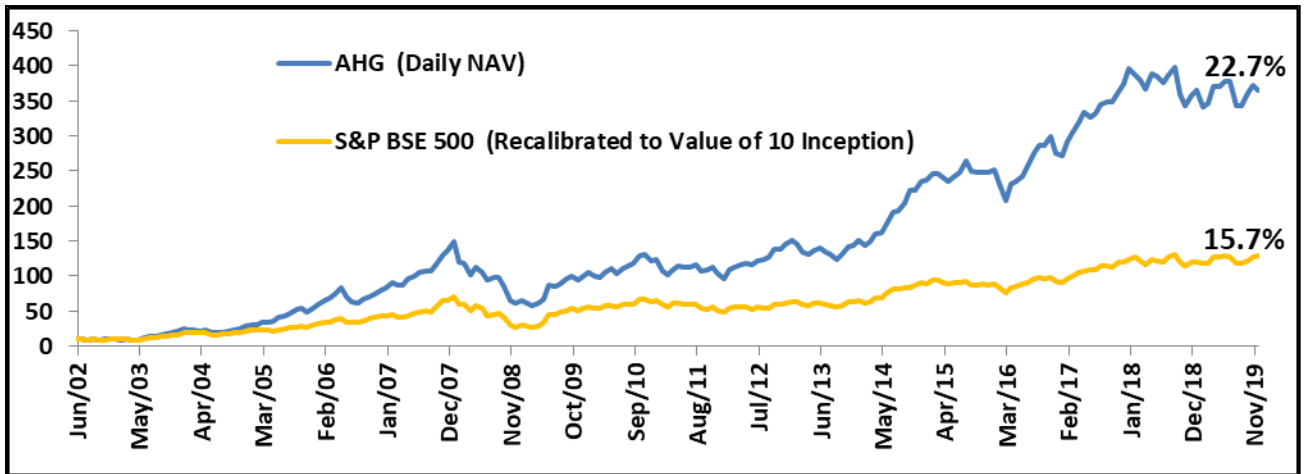
- Investment hypothesis was that the company's revenues would grow at a CAGR of 12%+ over the next few years given commercialization of 2 to 3 molecules every year and capacity expansion for early phase development pipeline. This along with strong operating cash-flows & lower capex levels will improve overall return ratios.
- However, return ratios (from 12% to 5% on adjusted basis) have deteriorated sharply due to unusually high capex levels. We are disappointed with continuous overshooting of capital expenditure in last 18 months (incurred Rs 528 Cr capex & Rs 220 Cr in 1HFY20). In a way, Dishman has added 32% capacity to its base capacity, which was already running at very low utilization. This has led to increase in net debt levels (by Rs 1.28 bn to Rs 9.15 bn) in 1HFY20.

BASF India:

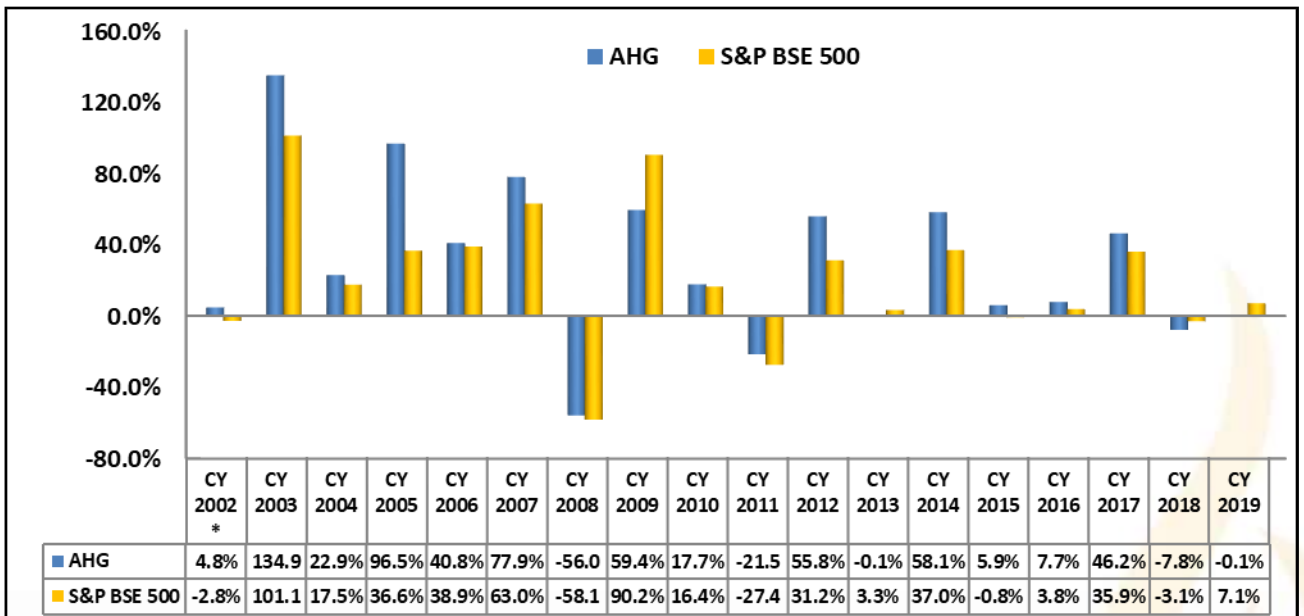
- Investment hypothesis was that the company's earnings would grow at a CAGR of 20%+ over the next few years based on improvement in margins due to higher manufacturing in India at the new Dahej plant and reduced imports.
- However, that thesis hasn't played out with import intensity remaining high while production at domestic units for certain products didn't scale up because of lack of demand growth and hence EBITDA margins remained subdued. This is unlikely to change significantly.

PMS PRODUCT PERFORMANCE

Alchemy High Growth (AHG)



Returns shown in above graph are CAGR .



Returns shown in above graph are absolute returns.

Data as on 30-Nov-2019

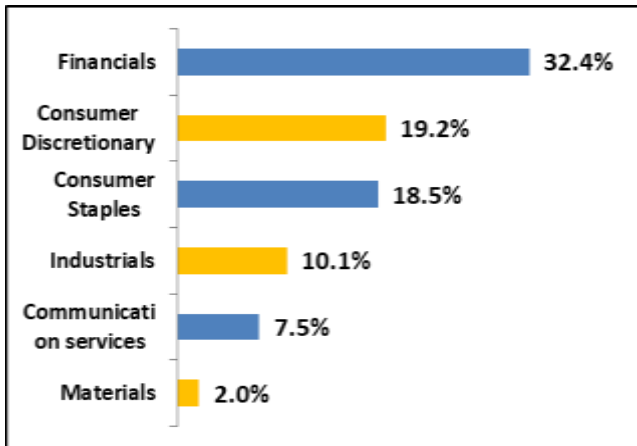
*Inception Date: 8-May-2002

- Past performance is no assurance for future returns.
- Returns presented are net of fees and expenses.
- The above performance figures are aggregate of all clients; the investor's actual portfolio may differ.

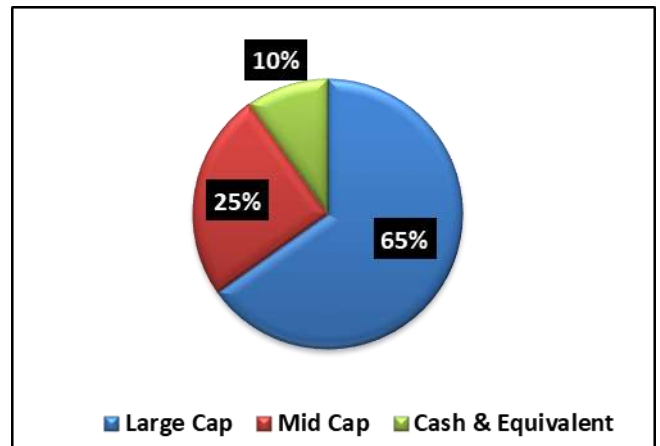
PMS PRODUCT PERFORMANCE

Alchemy High Growth (AHG)

GICS SECTOR ALLOCATION (%) †



MARKET CAP ALLOCATION *



PERIODIC RETURNS #

Period	Alchemy High Growth	Benchmark S&P BSE 500
6 Months	-3.4%	0.3%
1 Year	2.1%	7.9%
2 Years	-1.3%	3.6%
3 Years	9.8%	11.6%
5 Years	9.2%	7.3%
7 Years	14.0%	11.1%
10 Years	13.9%	9.0%
Since Inception [^]	22.7%	15.7%

Data as on 30-Nov -2019

[^] Inception Date: 8-May-2002

* Market Cap as of Dec 31, 2018 from S&P BSE500 is considered which is Large cap->26294 Crs, Mid cap-3109 Crs to 26294 Crs, Small cap-<3109 Crs

#Returns less than 1yr: Absolute, greater than 1yr: CAGR

#Past performance is no assurance for future returns. Returns presented are net of fees and expenses.

#The above performance figures are aggregate of all clients; the investor's actual portfolio may differ.

† Cash & cash equivalent :10%

Source : Bloomberg

RATIO ANALYSIS

Parameter	Alchemy High Growth (Since Inception)	Benchmark (Since Inception)
Std. Dev.	18.8%	22.0%
Sharpe	0.9	0.4
Beta	0.8	1.0

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All investment products attract various kinds of risks. Please read the relevant Disclosure Document / Client Agreement carefully before investing.

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