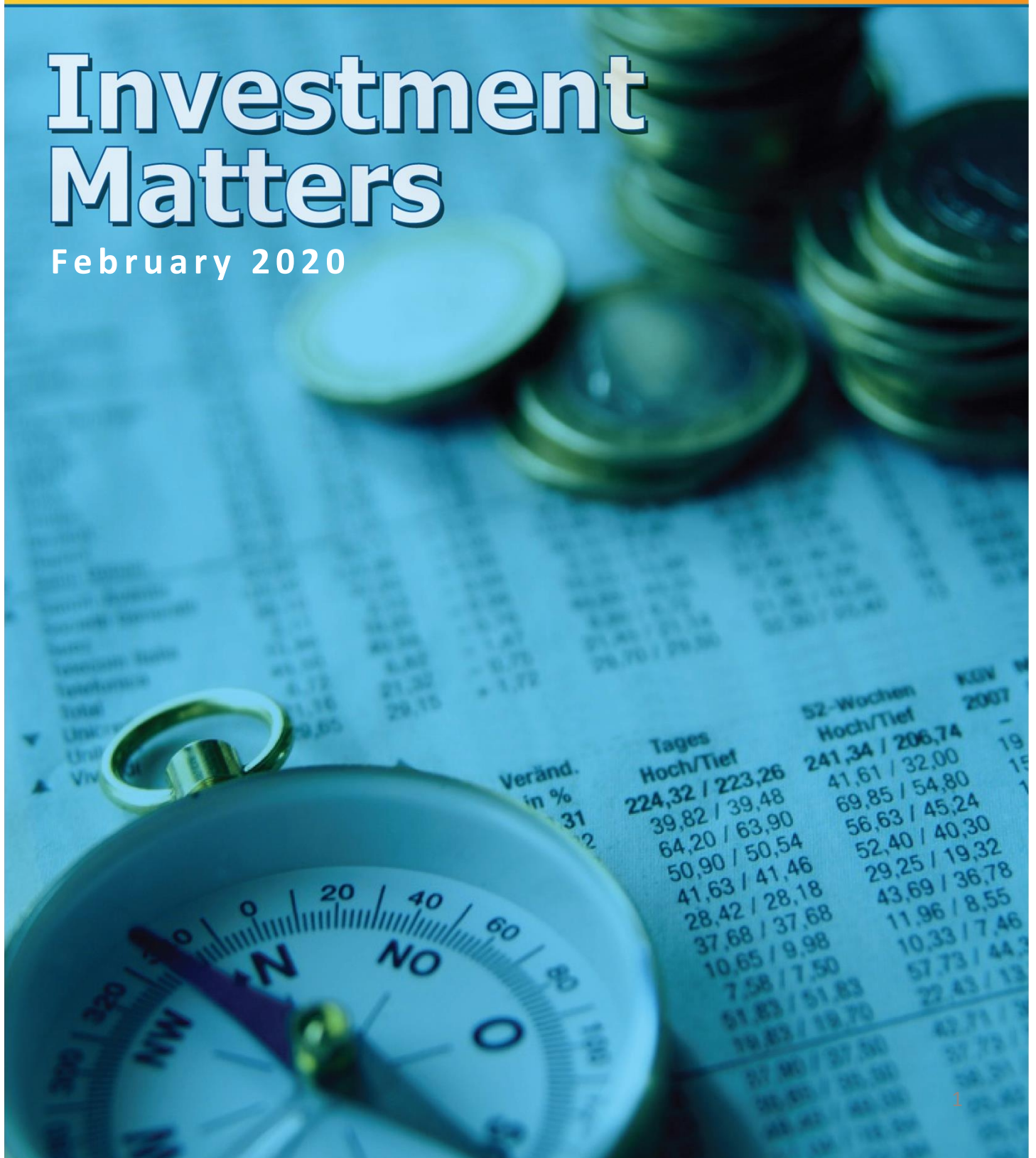


Investment Matters

February 2020



EQUITY OUTLOOK

Staying focused on Quality

Union Budget FY21

The initial negative market reaction to the budget was more to do with unrealistic expectations than any negatives in the budget itself. As we argued last year, the impact of the budget on earnings and the market has diminished over time. The lack of fiscal space limits the scope of “game-changing” fiscal announcement, despite the hopes that are inevitably built up. Moreover, decisions on domestic indirect taxes have moved to the GST council, further diluting the importance of the budget.

There were some positives that came through. The creative plan to divest existing roads by NHAI to create funding room for new road construction should help keep the momentum going. Also, the fact that FY20 gross borrowings were kept unchanged, along with manageable dated securities borrowing in FY21 cheered the bond markets. The focus on attracting foreign investment into the equity and bond markets via measures like DDT abolition, higher caps, and extension of the withholding tax concessions is the other major positive theme for the budget.

Some worries, however, persist. The revenue assumptions for FY21 are once again optimistic – both the gross tax revenue growth of 12% y/y and the Rs 2.1 trillion disinvestment target. The targets assume a tax buoyancy of 1.2x, which is higher than the average of 1.1x seen in the last five years. Any disappointment here will lead to cutbacks in expenditure in 4th Quarter, a pattern observed for the last few years. Continued constraints on government spending are likely to prolong the growth downturn.

No silver bullets

The absence of a stimulus for real estate and power also disappointed the market. There is a case of unrealistic expectations here. There are no silver bullets to solve the issues surrounding these sectors. Any heavy government intervention would create long-term issues of moral hazard, as it would be perceived as a bailout. Also, fiscal constraints limit the options. We remain skeptical of a broad-based recovery in the investment cycle for precisely this reason – the stress in real estate and parts of infrastructure will take some time to resolve.

Consumption recovery

The good news, however, is that a soft consumption recovery is underway. This is led by a favorable base, lower interest rates and a recovery in rural demand, given the good monsoon. We are not expecting a full-blown recovery as the cutback in government spending in 4QFY20 and the muted investment cycle continue to create an overhang. The growth numbers, however, should look better than the dismal prints of CY19.

EQUITY OUTLOOK

Focused on quality

Against this backdrop, we continue to focus on quality stocks for our portfolio. The macro slowdown has been accompanied by market share concentration towards players with strong execution capabilities, coupled with fortress balance sheets. This is a recurring theme across multiple segments like financial services, retail and FMCG. Valuations are challenging for some of these companies, but we believe that the sustainability of growth is a more important driver than absolute valuations.

Seshadri Sen
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Alchemy Capital Management Pvt. Ltd

Source :
Alchemy Research
Bloomberg

Q3FY20 Performance of Portfolio Companies

The following table summarizes the performance of portfolio companies, which have declared results so far in Q3FY20 :

Stock	Sales (Rs Mn)			EBITDA (Rs Mn)			PAT (Rs Mn)		
	Q3FY20	Q3FY19	% chg	Q3FY20	Q3FY19	% chg	Q3FY20	Q3FY19	% chg
Asian Paints	54,203	52,630	3%	11,894	11,044	8%	7,797	6,473	20%
Avenue Supermarts	67,519	54,509	24%	5,720	4,533	26%	3,987	2,571	55%
Axis Bank	102,395	96,044	7%				17,570	16,809	5%
Bajaj Auto	76,397	74,358	3%	13,672	12,125	13%	12,616	11,019	14%
Bajaj Finance	45,369	31,992	42%				16,141	10,598	52%
Bajaj Finserv	145,607	111,416	31%				11,256	8,505	32%
Bandhan Bank	18,980	15,257	24%				7,310	4,279	71%
Delta Corp	2,051	2,052	0%	791	855	-8%	551	512	8%
Godrej Consumer	27,781	27,240	2%	6,313	6,162	2%	4,496	4,176	8%
HDFC Bank	208,422	174,978	19%				74,165	55,859	33%
Hindustan Unilever	98,080	95,580	3%	24,450	20,460	20%	16,910	14,010	21%
ICICI Bank	131,546	107,581	22%				41,817	16,049	161%
L&T Technology Services	14,230	13,169	8%	2,864	2,417	19%	2,042	1,856	10%
MCX	893	769	16%	392	209	87%	553	418	32%
Pidilite Industries	19,266	18,483	4%	4,632	3,368	38%	3,445	2,181	58%
Quess Corp	29,500	21,722	36%	1,794	1,183	52%	749	650	15%
Ramco Cements	12,746	12,074	6%	1,995	2,110	-5%	948	1,011	-6%
Sundram Fasteners	6,703	9,821	-32%	1,161	1,926	-40%	1,031	1,112	-7%
Tata Consultancy Services	398,540	373,380	7%	108,710	100,830	8%	81,180	81,210	0%
Thermax	14,101	14,366	-2%	1,132	1,073	6%	850	750	13%
Thomas Cook (I)	17,270	15,556	11%	493	420	17%	101	50	101%
Titan Company	62,062	56,325	10%	7,356	5,445	35%	4,699	3,765	25%
United Breweries	14,548	14,512	0%	2,215	2,479	-11%	1,070	1,092	-2%
United Spirits	25,825	24,969	3%	4,240	3,582	18%	2,588	2,126	22%
V-Mart Retail	5,622	4,658	21%	1,168	733	59%	582	417	40%
Zee Entertainment	20,487	21,668	-5%	5,658	7,543	-25%	3,883	5,247	-26%

Source-Alchemym Research

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