

Enough triggers for earnings growth even without India-US trade deal, says Hiren Ved of Alchemy Capital

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Hiren Ved, chief investment officer at Alchemy Capital.

SUMMARY

Reduced income tax and GST, front-loaded policy rate cuts, liquidity and earlier credit norms should kickstart growth in the second half of FY26, leading to an earnings revival, says Hiren Ved, CIO of Alchemy Capital.

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A trade deal with the US is important for India, but even without it, there are enough triggers to drive earnings growth and take the markets out of the consolidation phase, according to Hiren Ved of Alchemy Capital Management.

The government has reduced income tax and the goods and services tax, and the Reserve Bank of India (RBI) has front-loaded repo rate cuts, injected liquidity and eased credit norms, said Ved, chief investment officer at Alchemy Capital. "These measures should kickstart growth in the second half and lead to the much-wanted earnings revival."

He cautioned that the valuations in the unlisted space remain frothy. Most of the unlisted deals are structured, where the investment banker prices them to perfection, he said, adding that investors must be very selective while entering the unlisted space.

Ved sees opportunities in AI, stressing that while Indian companies have not built large language models (LLMs) like ChatGPT, **data centres** and related AI infrastructure provide an opportunity to invest.

Edited excerpts:

How is the trade deal going to pan out?

I'm not too worried because eventually we will get a deal. Like in any deal, there are pulls, pressures and negotiations. The thought process was that probably India would be one of the first few countries to strike a deal with the US. It now seems like we are one of the last few countries to strike a deal.

If a country aspires to be a great power, it should have the conviction and the maturity to deal with a great power like the US. If you buckle down and agree to a deal that may not necessarily be fair, you are not displaying your ability to be a great power yourself. India is being patient and waiting for the right deal to happen, acting like how an aspiring great power should be. Despite the anxiety that people might have about how quickly we can reach an understanding, eventually we will have a deal.

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Deal or no deal, are there enough triggers for markets ahead?

The markets were in a consolidation phase because the economy entered a low-growth phase and earnings slowed down dramatically. Last year, we ran a tight fiscal and monetary policy, which led to this slowing. There was also some level of over-optimism built into stock prices. Now that has changed. The government has started to loosen the fisc. Initially, they cut the income tax, and now the GST. Similarly, the Reserve Bank of India has front-loaded interest rate cuts, infused surplus liquidity and eased the regulatory burden on the credit system to enable easy flow of credit to consumers, SMEs (small and medium enterprises) and businesses. These measures should kickstart growth in the second half and lead to a much-wanted earnings revival.

In addition to a favourable fiscal and monetary environment, the government continues to pursue reforms across the manufacturing and infrastructure sectors. The new shipping and maritime policy is a case in point. While striking a trade deal is important, there are enough triggers to drive earnings growth and the markets to move higher from this range-bound consolidation phase.

You have exposure to mid- and small-caps. How do you justify valuations?

There may be pockets where small- and mid-cap valuations seem unjustified, but to call the entire space expensive might be an exaggeration. Large companies and sectors are struggling to grow beyond single digits, even below nominal GDP, while the real swing in profitability post-covid has come from smaller and mid-sized companies that have grown much faster. Growth in India is now broadening, supported by access to risk capital, a favourable policy environment, entrepreneurial energy, and buoyant capital markets, which are represented in the mid- and small-cap space.

Any new themes you are bullish on?

AI and data centres. There's a common perception that India has missed the **AI revolution**, which is partly true since we aren't building large language models (LLMs) like Microsoft, OpenAI, or Google. However, India's participation will be significant in other ways. Global tech majors are expanding data centre capacity here, recognising that India hosts the world's largest user base for platforms like Meta, YouTube, and WhatsApp—creating a vast, rich dataset of Indian consumers. This is driving demand for domestic data infrastructure, where companies involved in building data centres—providing servers, cooling, cables, and design—may benefit. Moreover, India already has one of the highest numbers of **AI startups**, and while we may not lead in foundational GenAI models, we are well-positioned to develop industry-specific AI applications for sectors like finance, logistics, e-commerce, and manufacturing. India has been a part of every major tech wave, and it continues to do so this time as well. Selectively, we continue to be bullish and have participated in digitally enabled platform companies that are disrupting traditional players across sectors. We are also bullish on consumer discretionary companies that are the beneficiaries of rising incomes and premiumization.

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Are there AI opportunities in both the listed and unlisted space?

Yes. For instance, one of our AIF (alternative investment fund) schemes has invested in a company that designs and builds AI data centres globally, including for major hyperscalers. Beyond that, there are several equipment suppliers in India benefiting from the rising data centre capex—such as those making transformers, HVDC (high-voltage direct current) lines, cables, cooling systems, and backup generators—since these facilities demand huge power infrastructure.

On the software side, a listed data analytics firm is also benefiting as it helps businesses clean and structure data, a prerequisite for running AI models effectively.

How do the valuations in the unlisted space look now?

In private markets, there is too much liquidity chasing fewer good deals, so valuations continue to be frothy. Hence, one needs to be very selective in private markets. Most private deals are structured deals as the investment banker brings the deal to you, and they are mostly priced to perfection.

One of the reasons why people are willing to bet on private markets is that their ability to underwrite risks has gone up. Today, it is not just the PE (private equity) funds that are willing to invest in unlisted space, but even a group of HNIs (high-net-worth individuals), for instance, can collectively fund it. Moreover, the time between investing in a company and the same company going public has shortened.

We have a mix of listed and unlisted investments in two of our Category III AIFs, where we have the full flexibility to traverse between the two. Until we find the right unlisted opportunity at the right valuations, we can always invest in the listed markets, where we have the additional advantage of liquidity and transparency. This flexibility gives us the ability to move quickly to close a private deal and fund it through either cash or divesting part of our public holdings.

What are some metrics you look at while selecting an unlisted stock? Is it similar to what you would look at in the listed company?

In private companies, there are risks, including execution risk and liquidity risk. Hence, the bet is on the management team and our expectations of growth are much higher than what we expect from public-listed companies.

We look for companies that have the potential to grow substantially, for example, to double their size over about three years. Short-term profitability is not that important, but the company investing and building its capabilities is very important. We want good margins, good return on capital, but it should happen eventually, and not necessarily today. We are very mindful of the valuation we want to pay for taking the liquidity and execution risk. We are ok to walk away from a deal if we believe there is no valuation cushion.

Most market experts say that the new SIF will prompt investors to shift from Category III AIFs to SIFs.

The SIF (specialised investment fund) framework is more of a stepping stone for investors. With smaller ticket sizes, it will serve as an entry point for a broader base of investors who can later graduate to AIFs. A ₹10 lakh investment limit doesn't restrict investors permanently—as their wealth and incomes grow, they will naturally move toward larger, more sophisticated products like AIFs. Rather than diverting flows away, we believe that SIFs will actually expand the market for Category III AIFs by introducing more people to alternative investments. Much like how **mutual funds** familiarized investors with market investing.