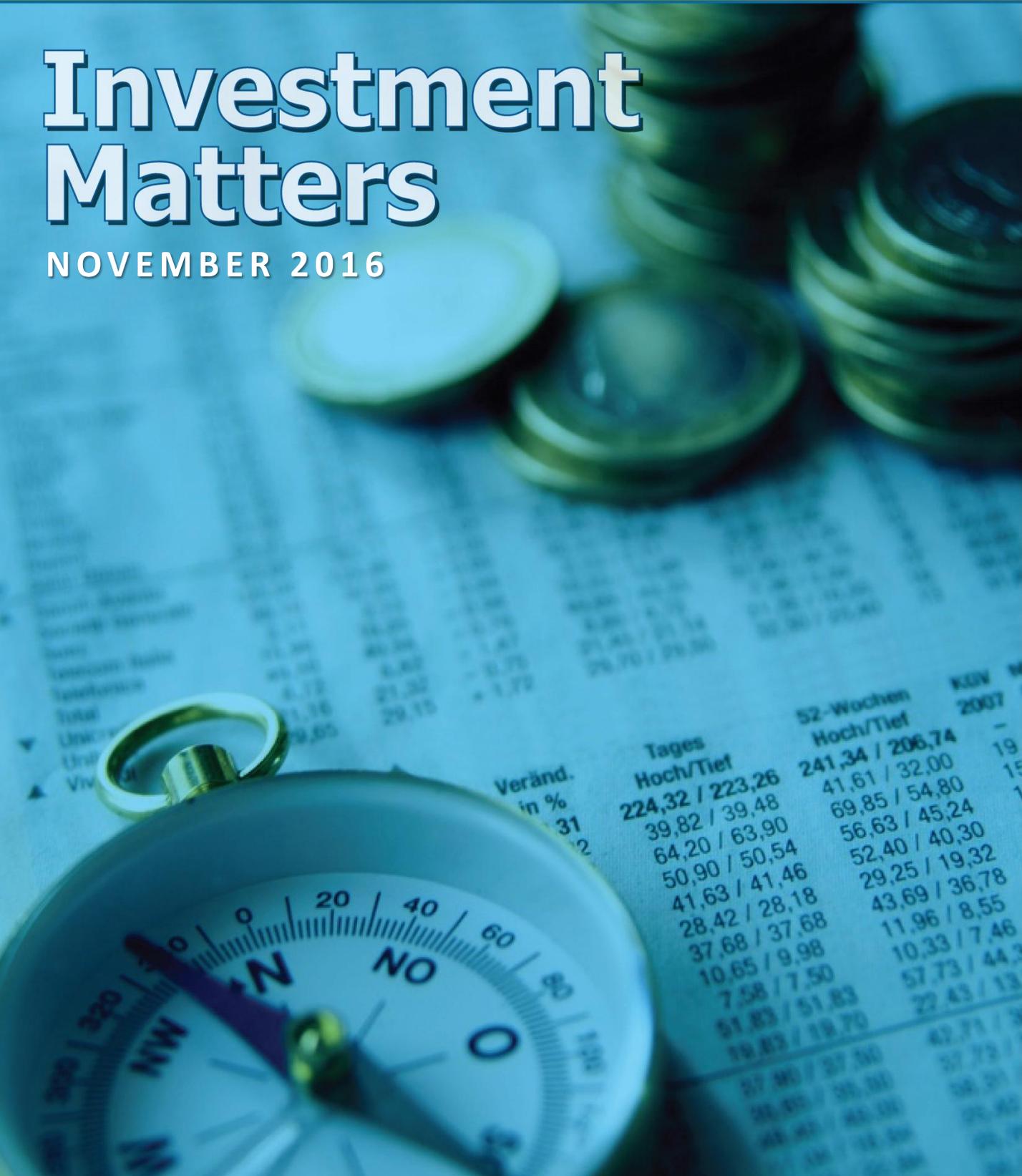


Investment Matters

NOVEMBER 2016



Veränd. in %	Tages Hoch/Tief	52-Wochen Hoch/Tief	KGV 2007
31	224,32 / 223,26	241,34 / 206,74	-
-2	39,82 / 39,48	41,61 / 32,00	19
	64,20 / 63,90	69,85 / 54,80	15
	50,90 / 50,54	56,63 / 45,24	1
	41,63 / 41,46	52,40 / 40,30	
	28,42 / 28,18	29,25 / 19,32	
	37,68 / 37,68	43,69 / 36,78	
	10,65 / 9,98	11,96 / 8,55	
	7,58 / 7,50	10,33 / 7,46	
	51,83 / 51,83	57,73 / 44,3	
	19,83 / 19,70	22,43 / 13	
	37,90 / 37,50	42,71 / 3	
	38,40 / 38,30	37,79 /	
	48,40 / 48,30	58,21	
	18 / 18,30	25,40	
	25,30	25,70	

EQUITY OUTLOOK

A Big Bang reform measure that has the potential to change the way transactions are carried out in India has been put into motion with Prime Minister Mr Narendra Modi announcing, in a very bold and well thought out plan, to demonetise Rs 500 and Rs 1000 denominated currency notes overnight. To recap, currently there is approximately US\$ 250 bn worth of currency in circulation out of which 86% is in the Rs 500/Rs 1000 notes. Many agencies/studies have argued that black economy in India is a significant proportion of the formal white economy and in a single stroke the government is aiming to bring this black economy into the formal economy immediately. This move has very positive and wide implications for the Indian economy and in turn equity markets over the medium to long term.

This move of the government clearly penalises black money significantly and if looked at in conjunction with the implementation of the GST (Goods & Services Tax) has the potential to improve the macro fundamentals of India significantly on a structural basis. The immediate beneficiary of this move will be the banking sector which stands to gain a fairly large growth in new deposits (somewhere between US\$100 to US\$150 bn) over the next 50 days. Majority of SME/MSME businesses/entrepreneurs will be forced to comply with the current tax regime overnight though it will take some time for reality to sink in and hence the Government stands to gain significantly on tax revenues over the next few quarters/year. Real GDP growth (reported) is likely to be materially higher than past due to conversion of the black economy into white which changes outlook on fiscal deficit/current account deficit as a percentage of GDP and hence over a period of time India stands to gain from a potential credit rating upgrade by global rating agencies. This would make India a very attractive destination for FII/FDI.

However, in the near term there is likely to be serious dislocation that will take place, especially for certain sectors of the economy where cash transactions were very high ie Real Estate and Gems & Jewellery. Real estate prices over time are likely to soften and may also see the velocity of transactions coming down – which could impact Banks/NBFC in terms of higher potential NPAs. , Growth of sectors linked to real estate like Tiles, Consumer Durables, Paints, Sanitary ware etc could see a negative impact in the near term i.e. next few months and generally given the view of negative wealth, consumption growth in the economy could get deferred to the in the short term.

In the short term India Macro will strengthen substantially while micro will weaken. However over the medium to long term, as and when people get used to the new way of life (life without black money) micro is likely to show a hockey stick phenomenon where earnings growth for the listed companies which are law abiding corporate will stand to gain market share compared to the unorganised players and will see sharp volume increase along with improvement in profit margins. The government over time will also have room to cut tax rates for corporate from current 33%+ to 25% or lower as committed by the FM in the previous budget which will drive earnings growth and upgrades.

We believe these are perfect times to cherry pick better management teams with proper systems & processes to scale their businesses over the long term. We at Alchemy Capital are extremely optimistic post the current moves of the government and would look forward to creating greater wealth for our clients over the next 3-5 years.

Chandraprakash Padiyar

Portfolio Manager
Alchemy Capital Management Pvt. Ltd

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