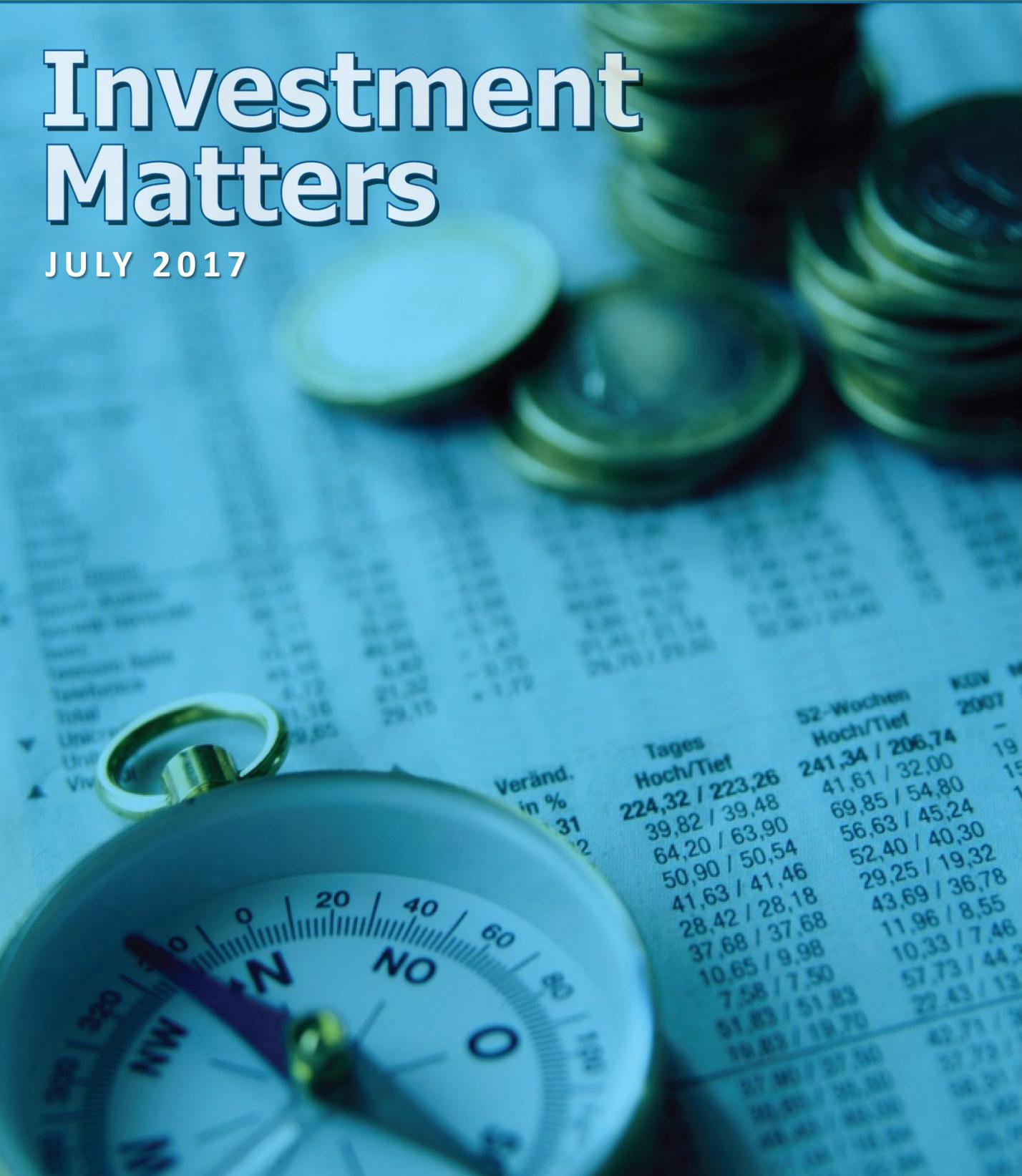


# Investment Matters

JULY 2017



	Veränd. in %	Tages Hoch/Tief	52-Wochen Hoch/Tief	KGV 2007
	31	224,32 / 223,26	241,34 / 206,74	
		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

Yes we can! Yes we did! We finally implemented the much awaited and the most significant reform of current times - The Goods & Service Tax (GST) or as our Prime Minister referred to as the "Good and Simple Tax". However, it has been anything but simple to get several state governments run by different political parties, some consuming states, some producer states, to give up a large part of control over their revenues in favour of the centre, though they will be compensated for any loss of revenues for a period of 5 years

As is widely reported and expected, the GST is likely to unleash massive productivity and efficiency in the economy and also give a big push to the formalisation of the economy. Yes there will be pain and an adjustment period in the interim but that is to be expected when such a complex reform is implemented at such a scale. However, barring a small minority of naysayers, most people agree that it is a great step which will accrue significant benefits in the long run for all stakeholders. There are many people who have asked me what if some people decide to not be part of the GST? And I told them do you know what happened to the "kaali peeli" taxi ? (cabs plying in Mumbai are called black & yellow taxi's). They resisted change, refused to reform, formed unions and are now consigned to insignificance because Uber and Ola have taken over market share. We believe it is going to be extremely difficult for businesses to operate outside the ambit of GST, because for that, the whole value chain has to be outside the ambit of GST and that seems to be very difficult in the new evolving scenario. So over time, we believe almost all businesses excluding agriculture will have to be part of the GST system. This will greatly enhance formalisation, make tracking of economic data more scientific and credible and significantly improve tax compliance. We believe that the short term possible negative impacts of GST are highly exaggerated and the potential long term benefits to industry and government tax collections are highly underestimated.

Our extensive interactions with our domestic investor client base which are spread across service and industry sectors indicate the following trends

1. Small traders and unorganised players are going to find it very tough to comply with new compliance rules and transparency and hence are likely to lose market share significantly or would have to shut shop
2. GST has made investment in some form of automation/digitisation for backend and accounting processes absolutely necessary
3. Tax outgo is likely to increase in sectors which were less tax compliant - jewellery, textiles, real estate, trading etc....
4. Larger well organised players seemed well prepared and will likely benefit the most - specifically in getting better set offs and in logistic costs
5. Sin goods will see some visibility and stability in tax incidence - e.g. Cigarettes, liquor
6. As was the case post demonetisation, demand for certain goods actually went up as consumers adjusted their cash by buying property or luxury goods. In the case of GST many clients reported spike in sales pre GST to avail benefits of lower pre GST prices! Also several businesses have used GST as an alibi to attract customers to stores by giving discounts and clearing up old inventory. This may actually lead to good volume growth in some consumer product categories instead of a slowdown in sales due to destocking as feared by many.
7. There is a clear preference to invest in financial assets and away from physical assets. And this trend is just getting started.

## **EQUITY OUTLOOK**

We believe India is entering a very interesting phase in its economic cycle. Never before in the past have we seen such significant and rapid change in the business environment being brought about by - changing regulatory landscape, reforms and deleveraging coupled with advent of technology driven disruption - in such a short period of time. Implementation of Aadhar, focus on financial inclusion, direct benefit transfers, Demonetisation, GST, RERA (new real estate regulation act), corporate sector deleveraging, consolidation in several sectors, opening up of new sectors to FDI, enhanced competition from e-commerce and internet business models, digitisation have all created tremendous pressure on business models and aggregate corporate profitability. While India continues to offer structural growth opportunities, it will simultaneously test management capabilities and abilities to adapt and cope with rapid change and disruption. We are increasingly becoming mindful in evaluating our portfolio companies which have such capabilities, as the leaders of tomorrow may not necessarily be that of yesteryears

**Hiren Ved**

**Chief Investment Officer  
Alchemy Capital Management Pvt. Ltd**

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