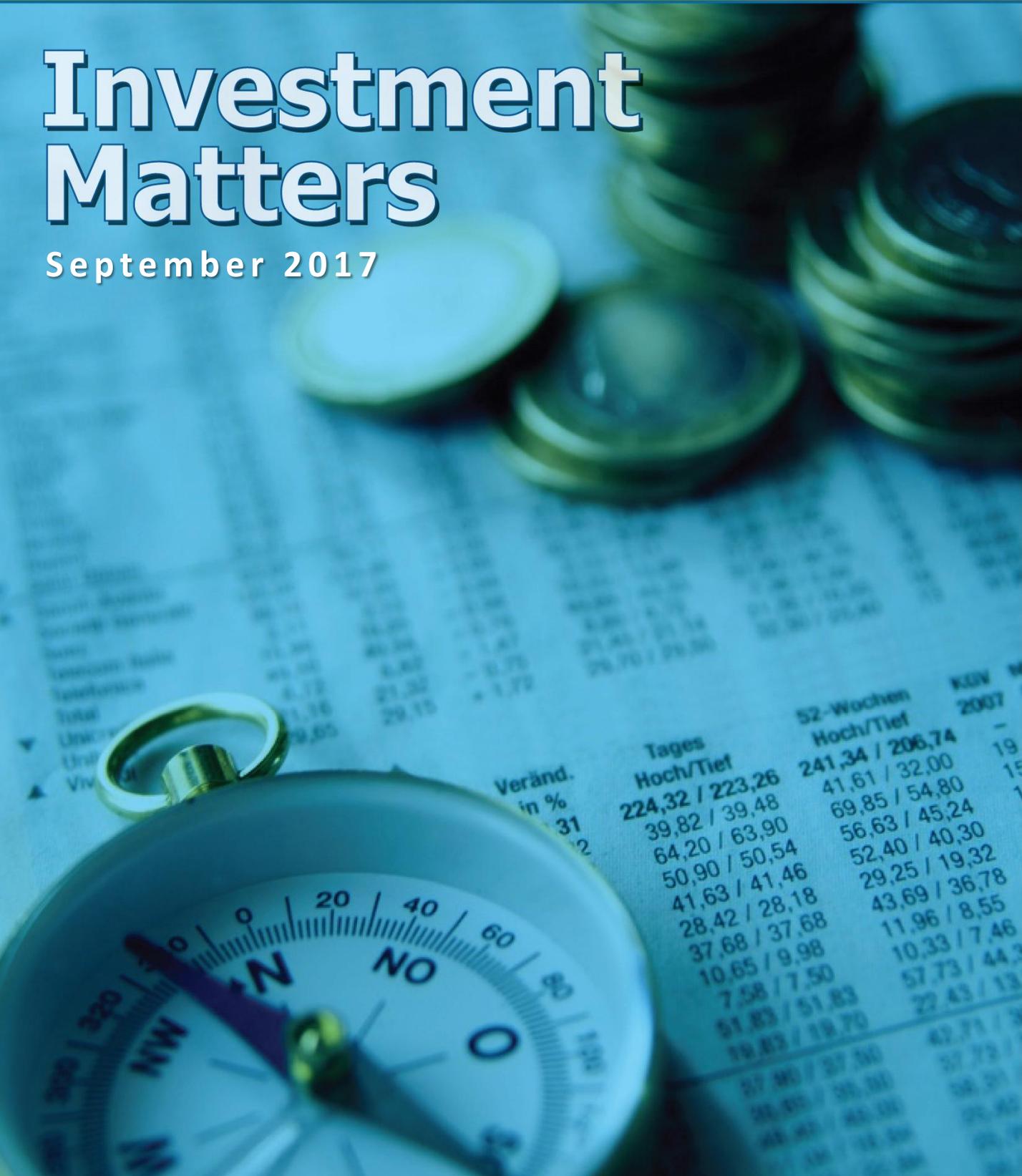


Investment Matters

September 2017



	Veränd. in %	Tages Hoch/Tief	52-Wochen Hoch/Tief	KGV 2007
	31	224,32 / 223,26	241,34 / 206,74	19
	-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	
		20,30	25,70	

EQUITY OUTLOOK

Monsoon for the current year is marginally below normal till date at -5% with a few regions getting deficient rainfall like MP, UP, Vidarbha Maharashtra, Coastal Karnataka, Kerala, Chandigarh and Delhi. A few state governments have already announced farm loan waivers to tackle agriculture sector distress – large states like UP, Maharashtra and Karnataka are notable among those announcing such waivers. It is important to highlight that crop prices, for a farmer, both due to excess production in India and global surplus have been lagging, for example, pulses production in the domestic market in FY17 shot up to 22.95 MMT compared to an average production of 16-19 MMT in the past, at the same time India has seen 6.6 MMT of imports from global markets. In a market where annual demand is to the tune of around 23 MMT, it is natural to find that prices are languishing significantly below even the minimum support prices announced by the government and actually farmers are unable to recover their cost at the current market price. This is just one such example and there are other crops where scenario is similar driving farmer community expressing their anger against the political class. Though ups and downs are fairly common in agriculture markets, the past 3 years have consistently been difficult for farmers – earlier due to crop failures on account of weak monsoon and now due to end prices – hence we are seeing a different level of agitation.

A short term impact on account of farm loan waivers is the fact that most state governments are unable to spend on infrastructure creation with budgets for FY18 showing sub 5% growth in developmental capex. The central government on its part, has been promoting the Pradhan Mantri Fasal Bima Yojana, a crop insurance scheme which has the potential to help farmers protect themselves from weather related issues and will go a long way in enhancing productivity of the farm. However, FY17-18 is a very different problem year in terms of price being lower than cost of production which a farmer has to fend himself.

Corporate earnings growth on account of Demonetisation and GST along with slow capex activity from the government are expected to remain on the lower side for FY18 with profit growth for Nifty companies likely in a range of 5%-7% (consensus expectation). However profit growth is likely to pick up pace in FY19 at 15-18% on the back of improvement in the health of banks especially PSU in terms of lower loan loss provisioning and stability in one off impact on account of GST. Equity markets trajectory over long periods of time follows earnings growth. Over the past 5 years earnings growth CAGR for Nifty has been sub 5% - this trajectory is likely to turn towards healthy double digit starting FY19 as the low base of Q3FY17 to Q1FY18 kicks in over the next few quarters. (PS: market projections on earnings growth in the past has not been very accurate and needs to be monitored closely going forward). Hence sans a durable earnings growth recovery, markets would be vulnerable to intermediate corrections. However, once the markets are convinced of an improving trajectory of earnings in the second half of FY18 and FY19 for reasons mentioned above, markets are likely to move significantly higher

EQUITY OUTLOOK

Name	Sales			EBIDTA			PAT			EPS		
	Q1FY18	Q1FY17	% chg									
ACC *	34529	29172	18%	6354	4576	39%	3218	2391	35%	11.1	8.3	35%
Bajaj Auto	54424	57480	-5%	9379	11760	-20%	8367	10397	-20%	82.0	101.9	-20%
Bajaj Finance	31645	22818	39%				6020	4240	42%	10.5	7.4	42%
Bajaj Finserv	65813	52339	26%				6551	5375	22%	41.1	33.7	22%
BASF	16497	15180	9%	700	776	-10%	7	98	-93%	0.0	0.2	-93%
BEML	6317	3457	83%	-635	-878	-28%	-851	-1071	-21%	-5.9	-7.4	-21%
Concor	15504	13944	11%	4204	3379	24%	2434	1785	36%	17.6	12.9	36%
Escorts	11632	10439	11%	975	900	8%	626	470	33%	1.2	0.9	33%
Federal Bank	26532	22638	17%				2102	1673	26%	8.8	7.0	26%
Grasim Industries	98459	90855	8%	21828	20142	8%	8904	8302	7%	213.2	198.8	7%
Greaves Cotton	4075	4007	2%	566	604	-6%	412	385	7%	2.6	2.4	7%
GSFC	11891	10918	9%	940	1076	-13%	405	463	-12%	9.4	10.7	-12%
Gujarat Gas	14780	12247	21%	2698	2173	24%	1044	748	40%	1.2	0.8	40%
HDFC Bank	221854	193226	15%				38938	32389	20%	213.6	177.7	20%
Honda Siel Power	1823	1695	8%	218	248	-12%	127	151	-16%	0.5	0.6	-16%
Info Edge	2489	2219	12%	969	723	34%	642	444	45%	0.3	0.2	45%
ITC	142772	154109	-7%	42232	42775	-1%	25605	26695	-4%	2.1	2.2	-4%
ITD Cementation *	4892	8332	-41%	546	800	-32%	182	60	203%	17.9	5.9	203%
Jain Irrigation	16812	16601	1%	2343	2377	-1%	443	587	-25%	1.2	1.6	-25%
Jubilant Life	16029	14582	10%	3444	3725	-8%	1437	1639	-12%	9.3	10.6	-12%
Kalpataru Power	6667	5590	19%	654	530	23%	214	113	89%	0.1	0.1	89%
L&T Tech Services	8488	8260	3%	1519	1721	-12%	982	1083	-9%	0.3	0.4	-9%
Mahindra CIE *	15248	13266	15%	2058	1500	37%	1233	779	58%	4.5	2.8	58%
Maruti Suzuki	204601	174841	17%	30139	27029	12%	15564	14909	4%	101.4	97.2	4%
OFSS	12038	11771	2%	5251	4752	11%	3696	3464	7%	1.7	1.6	7%
PTC India Finance	3006	2713	11%				792	674	17%	2.6	2.2	17%
Quess Corp	11881	9910	20%	635	528	20%	326	247	32%	0.5	0.4	32%
Ramco Cements	11940	11240	6%	2957	3061	-3%	1558	1559	0%	12.9	12.9	0%
Sundram Clayton	4041	3864	5%	201	339	-41%	-38	114	-133%	-0.3	0.9	-133%
Sundram Fastners	7976	7130	12%	1563	1348	16%	902	756	19%	4.3	3.6	19%
Syngene	3083	2904	6%	1132	1047	8%	620	598	4%	3.1	3.0	4%
Titan Co	40496	28406	43%	3932	3002	31%	2329	1204	93%	1.4	0.7	93%
TV18 Broadcast	2191	2107	4%	-138	-190	-27%	-120	-141	-15%	-0.5	-0.6	-15%
Ultratech Cement	70707	65897	7%	16682	14754	13%	8979	7630	18%	14.0	11.9	18%
Varun Beverages *	16334	16605	-2%	4805	4656	3%	2451	2046	20%	13.1	10.9	20%
Ashok Leyland	28495	31163	-9%	3061	4821	-37%	1238	2908	-57%	0.4	1.0	-57%
AIA Engineering	5700	5004	14%	1299	1470	-12%	885	1090	-19%	9.4	11.6	-19%

Hiren Ved

Chief Investment Officer
Alchemy Capital Management Pvt. Ltd

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