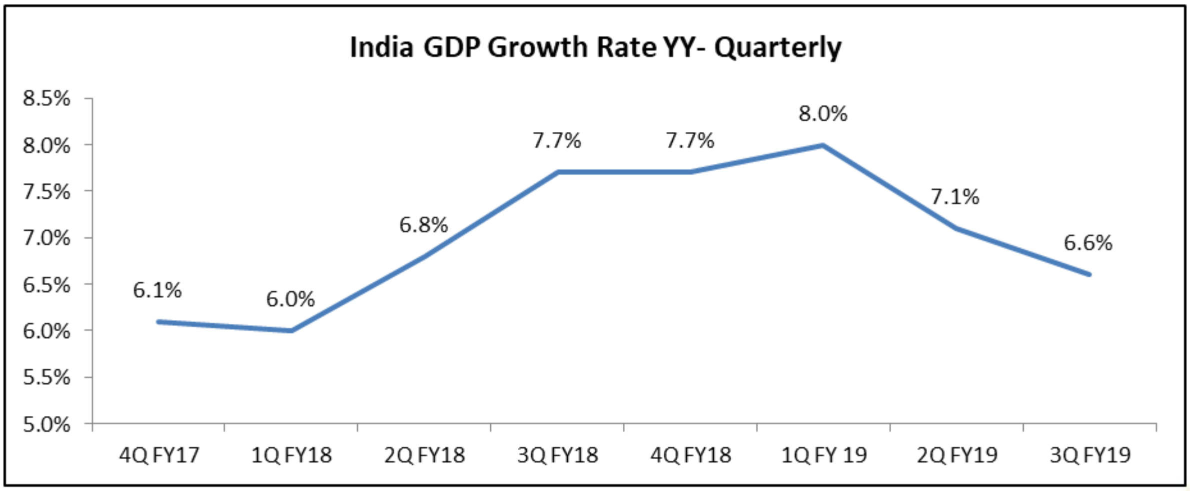
ALCHEMY CAPITAL MANAGEMENT

Investment Matters

Mar 2019

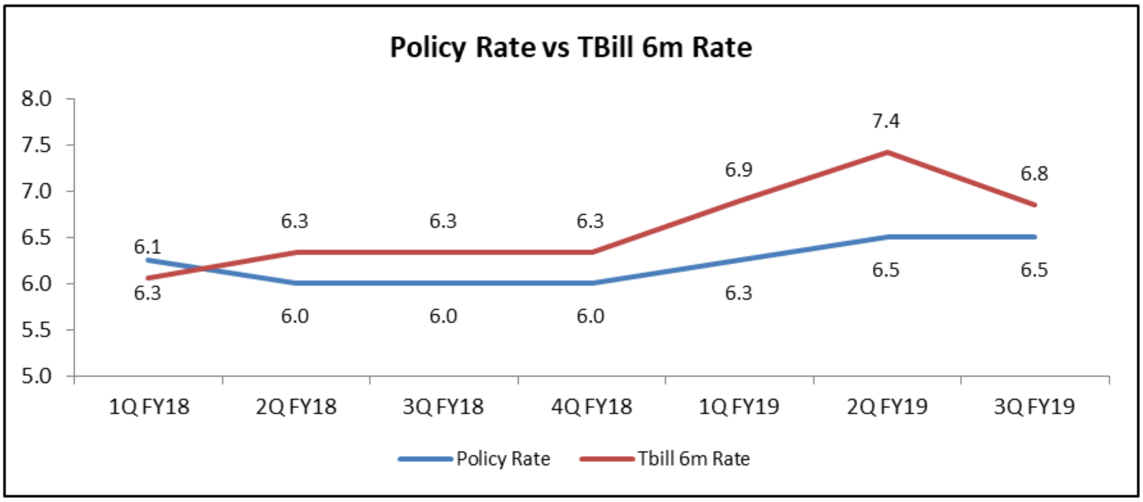
Market Overview

The weak growth momentum was reinforced by multiple data releases over the last month – 3QFY19 GDP growth at 6.6% y/y, February auto sales flat across most categories and January IIP growth at 1.7% y/y. The impact of tight liquidity, agrarian distress and a high base continue to weigh on aggregate demand, which should continue for a while. The weakness should continue for another 3-4 months at least and could be exacerbated by a) the public spending cuts in 4QFY19 as the government tries to meet the fiscal deficit targets and b) the sentiment uncertainty around the elections.



Source: Thomson Reuters

The RBI cut rates by 25bps in February, citing the persistent undershooting of CPI inflation below the mandated target of 4%. Inflation has marginally ticked up in January (from -0.33% to 1.99%) but the space remains open for further cuts. Transmission of these rate cuts, however, remains a challenge. In the absence of any concrete liquidity infusion to accompany the rate cuts, banks see no material improvement in their cost of funds and are, therefore, unable to cut lending rates. The RBI's recent move to infuse liquidity via swaps should incrementally help. We, however, expect major easing of interest rates only after April, possibly aided by another rate cut and further liquidity easing by the RBI in the April policy.

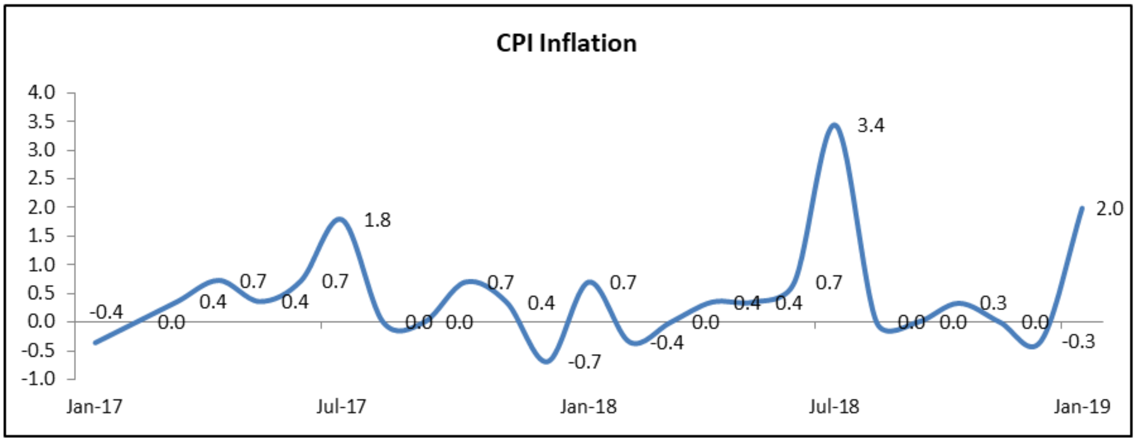


Source: Thomson Reuters

The stress in the NBFC sector has somewhat eased, with most NBFCs able to meet liquidity requirements from a combination of markets, bank loans, retail FDs (selectively) and loan selldowns. The fear of a default has now almost fully receded. The cost of funds, however, remains elevated and many of the NBFCs (especially housing finance companies) are cutting back on growth to maintain balance sheet stability. The operating environment for NBFCs may change if liquidity eases in April, but longer-term funding challenges for NBFCs with weak asset profiles are likely to persist.

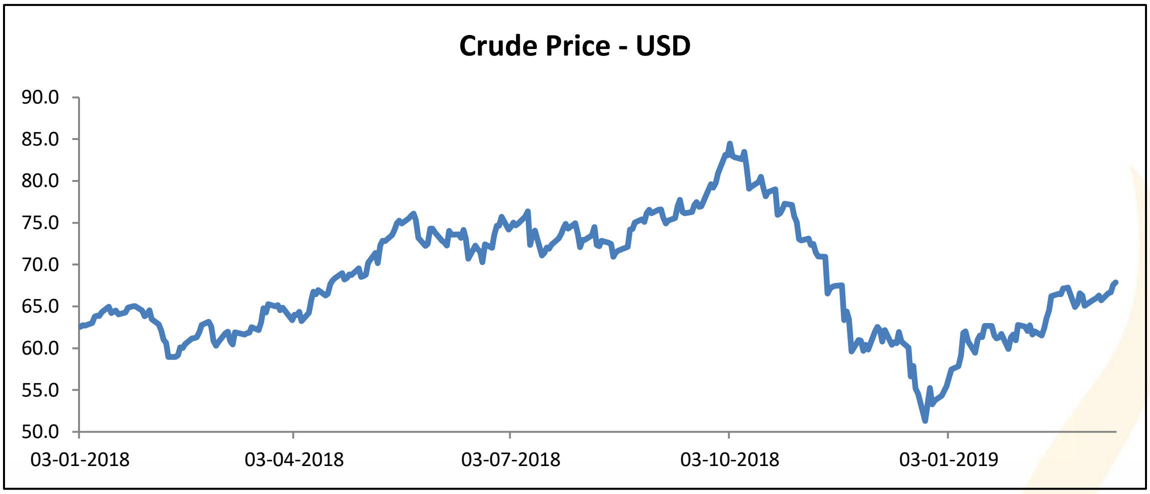
The Election Commission announced the schedule for the Lok Sabha elections on 10 March. The polls will be held over seven phases from April 11 to May 19, with the final results to be announced on May 23. The code of conduct has, consequently, become active so all major policy decisions are on hold till the new government is installed. The government, however, did push through multiple reform measures over February and March.

Our expectation of a second-half recovery in the economy remains unchanged. Some enablers are falling into place: a) persistent low inflation creates the space for significant monetary easing b) the fiscal tightness would ease, at least in 1HFY20 and PSU bank lending should accelerate after banks came out of PCA since February (and more expected in May after the 4Q results). As we proceed towards the end of CY19, a favourable base effect is also likely to kick in.



Source: Bloomberg

The key risk is oil process. The consensus opinion is that oil should remain range bound over CY19, but upside risks from geopolitical uncertainty and supply shocks cannot be ruled out. A spike in oil prices has negative consequences for India's financial stability, and puts our assumption of liquidity easing at risk.



Source: Bloomberg

Mr. Seshadri Sen
Head of Research, Alchemy Capital Management Pvt Ltd.

DISCLAIMER

General Risk factors

All investment products attract various kinds of risks. Please read the relevant Disclosure Document / Client Agreement carefully before investing.

General Disclaimers

The information and opinions contained in this report/ presentation have been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate or complete.

Information and opinions contained in the report/ presentation are disseminated for the information of authorized recipients only, and are not to be relied upon as advisory or authoritative or taken in substitution for the exercise of due diligence and judgement by any recipient.

The information and opinions are not, and should not be construed as, an offer or solicitation to buy or sell any securities or make any investments.

Nothing contained herein, including past performance, shall constitute any representation or warranty as to future performance.

The client is solely responsible for consulting his/her/its own independent advisors as to the legal, tax, accounting and related matters concerning investments and nothing in this document or in any communication shall constitutes such advice.

The client is expected to understand the risk factors associated with investment & act on the information solely on his/her/its own risk. As a condition for providing this information, the client agrees that Alchemy Capital Management Pvt. Ltd., its Group or affiliates makes no representation and shall have no liability in any way arising to them or any other entity for any loss or damage, direct or indirect, arising from the use of this information.

This document and its contents are proprietary information of Alchemy Capital Management Pvt. Ltd and may not be reproduced or otherwise disseminated in whole or in part without the written consent.

Edited by: Sachin Pawar (Ph: +91-22-66171742)
Alchemy Capital Management Pvt. Ltd., B-4, Amerchand Mansion, 16 Madame Cama Road, Mumbai 400 001.
Ph: +91-22-66171700
CIN- U67120MH1999PTC119811, Email ID: contactus@alchemycapital.com