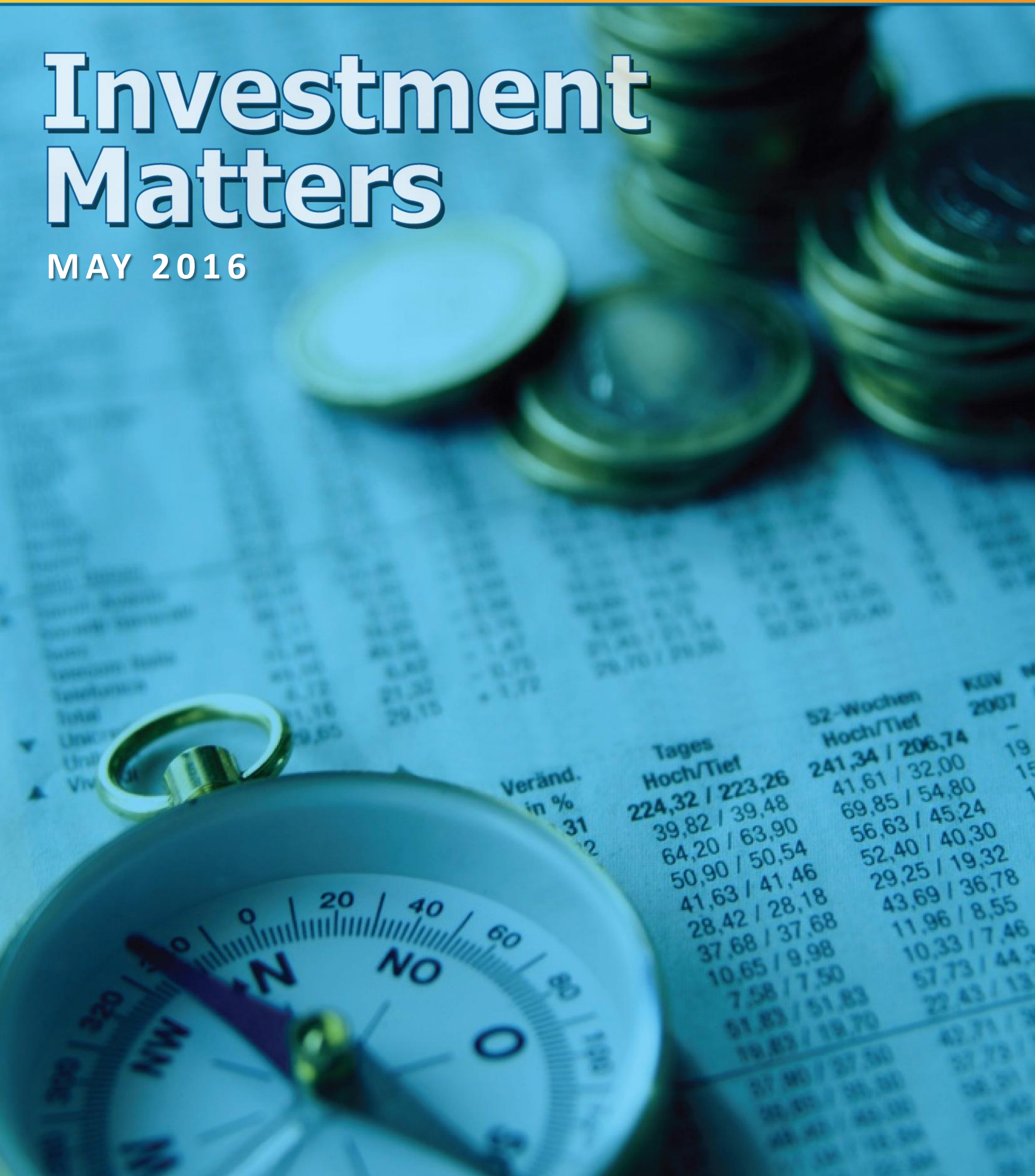
ALCHEMY
CAPITAL MANAGEMENT

Investment Matters

MAY 2016



EQUITY OUTLOOK

India macro continues to improve on the back of lower commodity prices allowing RBI to cut rates by another 25 bps in April 2016, as well as announce its intention to ease liquidity in the system over the next few months. 10 year Bond yields took cue from the RBI and came down by 30-40 bps towards a band of 7.4% to 7.5%. However, Indian Banking sector continues to struggle with higher NPA's – RBI has mandated banks to provide for bad assets by FY17 end – this is likely to continue to impact economic recovery for some time to come. Over the past 3 years Indian banks have restructured sub standard loans in excess of US$45 bn in addition to Gross NPA of US$131 bn. Total gross NPA including restructured loans and SDR cases is estimated to be >15% of the banking sector assets largely contributed by the PSU banks. The RBI is proactively working with banks to provide for such bad assets on its books and put pressure on corporates to bring fresh capital or sell assets to repay loans. A large part of the bad assets is being contributed primarily by companies belonging to a few sectors ie Metals (Largely Steel), Power, and Infrastructure. Given the current subdued economic environment globally and its impact on commodity prices most businesses belonging to these stressed sectors are not showing any signs of improvement. In our opinion, a fairly large part of the restructured assets of the past will form part of the NPA basket over the next 12 months which will increase the burden for banks going ahead. The government in order to control its fiscal deficit is not able to infuse more capital in the PSU banks and hence capacity to lend more by these banks is curtailed for now. PSU banks form 70% of total lending in India and since this large block is not being able to grow, private banks/ NBFC are able to grow faster – however the overall credit growth in the system continues to be on the slow side.

Monsoon is eagerly awaited since water table across the country specially the western region ie Maharashtra is at extreme low levels along with government spending on social schemes being curtailed impacting rural consumption. We have witnessed two back to back weak monsoon in the past and it is important for us to get a normal/above normal rainfall in this year. All forecasting agencies are predicting an above normal year in terms of total rains in FY17. This can bring significant benefit to the economy in terms of farm incomes moving up leading to higher consumption and growth.

Q4FY16 result season is underway with 19 Nifty companies and 92 BSE 500 companies having reported results so far. We are encouraged by the corporate performance till date with companies reporting sales growth of 5% (compared to degrowth in sales over the past few quarters) and a double digit EBIDTA growth >10%. These are early days but it is important to highlight that monthly data points post Q4FY16 ie Auto, Cement, Power, Steel sales numbers for April 2016 highlight a continuation of an improving demand environment on a yoy basis. A good monsoon can lead to further improvement going forward. We keep our fingers crossed for the same.

Chandraprakash Padiyar

Portfolio Manager
Alchemy Capital Management Pvt. Ltd

DEBT OUTLOOK

Sentiments in debt markets were buoyant and bidding in government securities auction continued to be strong. State government securities were also aggressively bid in the primary auctions by banks. The spreads between central and state government papers narrowed to 50 to 60 basis points from 70 basis points. AAA PSU Corporate bond spread continued to remain in the 50 to 60 basis points range across various maturities. Inspite of all of these the Debt market was range bound in the month of April, with the ten year yield moving down marginally from 7.47 % to 7.44 %

RBI in its credit policy meeting had cut the repo rates by 25 basis points and increased the reverse repo rates by 25 basis points. Accordingly, the spread between reverse repo and repo rates is now at 100 basis points.

The reverse repo rates is now at 6 %, the repo rates is 6.5 % and the Marginal Standing Facility Scheme (MSS - a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely) is now at 7 %. RBI has also stated it wants to provide durable liquidity and it would bring the liquidity deficit which was at 1%- 1.5 % of net Demand and Time liability to neutral levels. This would be done by injecting liquidity through purchase of dollars and giving rupee liquidity to the market, purchasing of bonds by RBI through Open market purchases and releasing rupee liquidity or a combination of both.

Due to redemption of Foreign Currency Non Residence deposit FCNR (B) of 24 billion USD and the US Federal Reserve expected to hike the Federal Fund rates in the current financial year, dollars inflows in the Indian markets is not expected to be meaningful. This should lead to RBI resorting for OMO purchases of government securities to infuse rupee liquidity into the system. RBI is expected to do OMO of Rs 1.5 Lakh crores in the current financial year to bring the system liquidity to neutral. This is almost 1/3 of the net borrowing programme of the central government for the current financial year. RBI also stated its focus would be now on monetary transmission of its previous rate cuts in the banking system.

U.S Federal Reserve chairperson Janet Yellen kept the fed fund rates unchanged even though unemployment rates have fallen to 4.9 % levels versus its target of unemployment rate of 5 % levels. Core CPI inflation stripped of volatile component like oil and food prices for the month of March is at 2.3 % levels, the CPI inflation reading for the month of March is at 1.3 % on a year on year basis. The Federal Reserve indicated a gradual pace of rate increase as the global markets continued to be volatile. Fed chairperson stated the fed ability to reduce rates is limited in response to further shocks in the economy and it would continue to adopt a gradual and cautious stance in hiking rates. It stated pricing pressure continued to abate in the economy due to the disinflationary pressures emanating from the weak global economy. Japan governor refrained from adding further stimulus to the economy which led to the yen strengthening against the dollar and trading at 107 to the dollar.

After three consecutive months of contraction, the IIP grew at 2 per cent due to strong performance by electricity and mining sector, which grew at 5.00 and 9.80 per cent respectively. The current printed IIP number was 120 bps above the survey number whereas compared to prior data it was 350 bps above. The narrowing in the trade deficit stemmed from imports contracting a notable 21.6% annually in March, which was a significantly more profound drop than the 5.0% plunge tallied in February. The low-oil-price environment has caused the value of India’s imports to drop. Accordingly, oil imports totaled USD 4.8 billion in March, which represented a 35.3% decrease compared to the same month last year.

DEBT OUTLOOK

The first advance estimate of the Indian metrological department has predicted a normal to above average rainfall for the June to September quarter. As per RBI estimated the major factors affecting the trajectory of CPI Inflation is monsoons and oil prices.

We expect interest rates will hold at current levels for next 2-3 months post with if monsoon is normal it may further fall to 7 to 7.25% levels. Investors with a preference for lesser volatility and looking for regular income could consider shorter tenor products (1-3 years) including both accrual products and Short term funds. Investors with a longer term horizon can consider dynamic bond funds.

Advisory Team

Alchemy Capital Management Pvt. Ltd

DISCLAIMER

General Risk factors

All investment products attract various kinds of risks. Please read the relevant Disclosure Document/ Investment 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 services related to Mutual funds, Insurance, Real Estate, Art, Commodity etc. may merely be a referral / advisory services in nature. Such third party investment products or services do attract the general and specific risk factors unique to those respective products or services, which would be mentioned by the manufactures of those products in the respective product documentation. The prospective investors in such third party products are advised to read and understand those risk factors & disclaimers, in addition to what has been stated herein. Alchemy Capital Management Pvt. Ltd., its Group or affiliates have not verified and do not take any responsibility for any statements, numbers or claims made, omitted to be made or implied in any documentation, presentations etc. which have been created by the manufacturers of such third party products or services.

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:- Naman Dhamija (Ph: +91-22-66171773)
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