ALCHEMY
CAPITAL MANAGEMENT

Investment Matters

FEBRUARY 2017

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EQUITY OUTLOOK

Fiscal consolidation, along with boost to rural/infrastructure/affordable housing, was the theme of Budget 2017. The finance minister has done well not to fall prey to demands of higher spending on the back of temporary weakness in demand post demonetisation. FY18 fiscal deficit target has been pegged at 3.2% to GDP compared to 3.5% for FY17. Importantly, the government has restricted the net borrowing figure for FY18 to only 3.48 lac cr. The government from FY18 has merged the Railway budget with the overall budget and hence, this number is even more credible for the markets.

It is very well understood that a large part of infrastructure spending will have to be done by the private sector and the government will largely be a facilitator for the same. Also, all states combined, will be focusing on the urban infrastructure in their respective states. Budget FY18, inspite of its limitations, did well in allocating higher sums for Roads, Housing, Railways and Urban Infra. There are certain areas where the government is betting on better execution by its machinery ie the government, as per advice by the Niti Ayog, is promising large strategic divestment/fresh PSU listings/CPSE ETF for the next 12 months with net budgeted number of around 72,500 cr. Also, there is expectation that the income tax department will unearth black money deposited with banks post demonetisation and get higher tax revenue – execution is the key.

The budget has provided certain tax benefits to individual tax payers with taxable income upto 5 lac and small/medium enterprises with turnover upto Rs 50 cr – small in total amount, however still gives a relief to an extent. Among the misses, the biggest would be restricting set off of interest expense against rent income on second house to a maximum of Rs 2 lac – this can impact housing demand by the taxpaying class since earlier, every taxpaying individual was motivated by the government to keep personal leverage and buy a property since the net cost of loan was fairly low due to the tax breaks available and one could own a physical property. Another miss in the budget was the low figure of Rs 10,000 cr allocated for bank recapitalisation. Though the finance minister has assured further infusion as and when required – it seems the government expects credit growth for PSU banks lower than 15% for FY18 and hence, does not see any special need to infuse further capital.

Overall, the government has done well to continue on its path of fiscal consolidation which further improves the macro economic health of the country and will sustain growth profile of the country for a long period of time. Near term scope of earnings upgrades on account of budget provisions seems unlikely and the focus will be back on quarterly/annual earnings delivery for corporate India. Q3FY17 earnings results season is currently under progress and largely, the result season as of now is positive with not much impact seen on account of demonetisation – a total of 14 Nifty companies (ex Oil & Gas and Financials) have reported their results till date, Net Sales have grown by 8.8% while the EBIDTA growth stands at 5.7%. This performance is quite commendable, with a backdrop of demonetisation. We will publish a detailed update note on quarterly results for our portfolio companies in the Feb 2017 note.

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