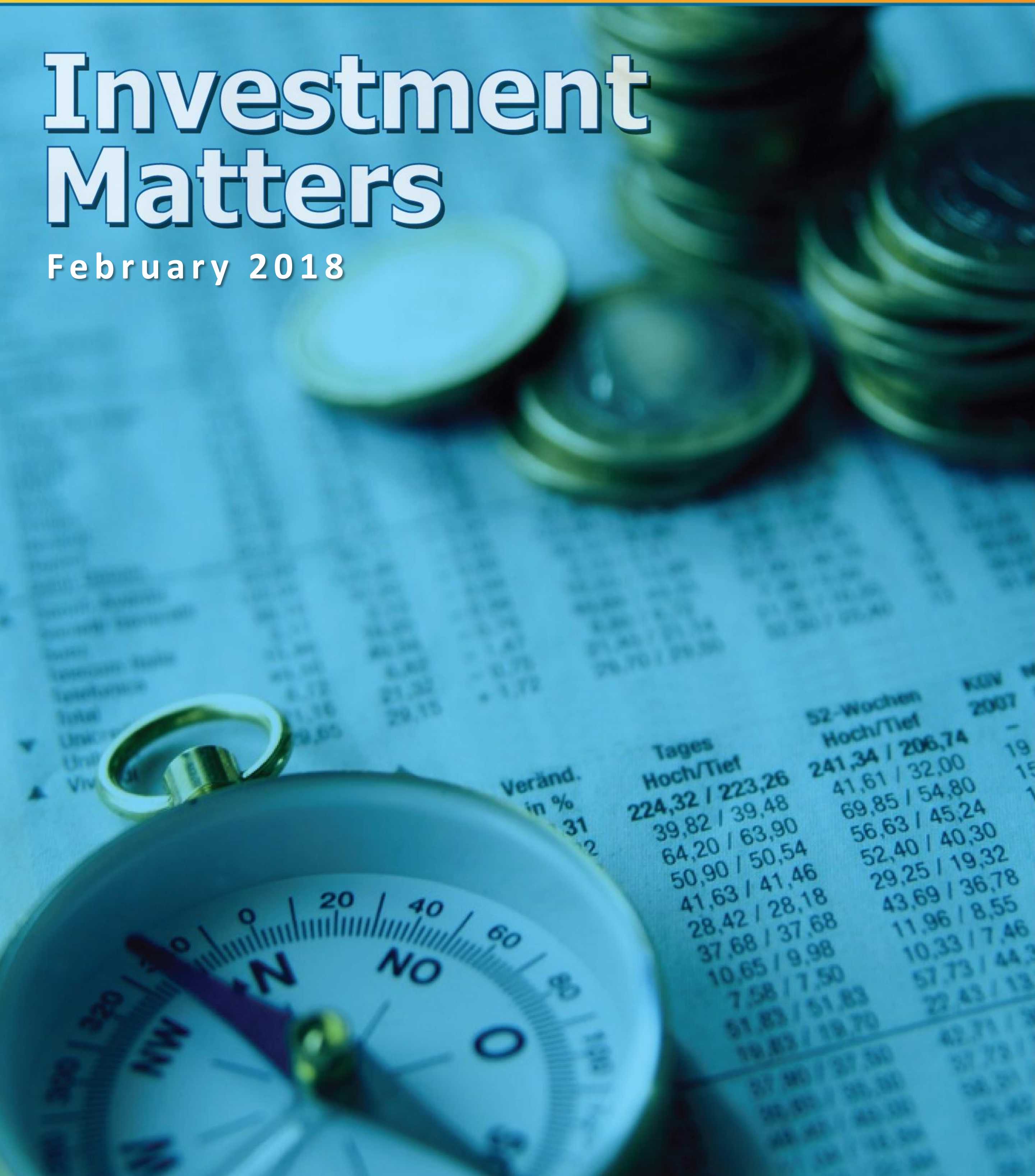
ALCHEMY
CAPITAL MANAGEMENT

Investment Matters

February 2018



EQUITY OUTLOOK

CNX Mid Cap Index corrected by -1.6% in January 2018 and further corrected by another 7% in the first week of February 2018 thereby resulting in a YTD fall of -8.1% in CY2018. The fall has been pretty steep in a short time frame and we at Alchemy, have been receiving queries on the reasons for the same, what next, and whether the recent budget presented on Feb 1 the big reason for a fall - basically there is some worry creeping up given that even some of our portfolio stocks have fallen between 10-20% over the past 30 days from their peak price levels.

Over the past 6 months or more, we have been highlighting our concerns on valuations in the market, especially mid caps, and also the fact that inflation is likely to rise leading to higher bond yields. CY2017 was a year with strong returns with very limited volatility. CY2018 has started with higher volatility and our sense is that this is likely to remain for a major part of this year. A lot depends on global bond yields and inflation outlook. With crude and other commodity prices moving higher, risk of higher yields and in turn higher volatility for equity markets globally has moved up. Like CY2017 was a year of global rally in equity markets, CY2018 has started with correction in equities globally . In our opinion, this is a much required healthy correction that we are witnessing currently. As always, when markets correct, even our portfolio names correct. Over a period of time, this will normalize on the back of strong earnings growth performance expected over the next 6-8 quarters.

Budget 2018 has introduced a long term capital gains tax of 10% from FY19 onwards. This has impacted sentiment among investor community towards equity as an asset class in the short term. However, the government has taken care not to disturb past capital gains up to January 31, 2018 and has grandfathered the same.

Something that we have been highlighting in the past - Earnings growth for Nifty is likely at 15%+ in FY19 and very likely to sustain this pace even in FY20 (though it is a bit early to have a firm view on FY20 as of now). Our set of portfolio companies are likely to grow earnings at 25%+ CAGR over FY19-20 which keeps us optimistic of strong performance for our portfolio companies going forward.

On balance, near term outlook remains on the cautious side with higher volatility expected, however medium to long term view continues to be fairly optimistic.

Chandraprakash Padiyar

Portfolio Manager
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