Catalyst

Industry Notes.....Mar 2018

Dear friends,

The financial year 2017/18 is coming to a close. It has been an eventful year with equity market index at all time high and banking system stress at its peak. It's a paradox in the backdrop of the fact that around 40% of the index weightage is financials. Not sure, if the news can be interpreted as bad news factored in and market looking for good times ahead. There is skepticism in planning for growth and that means capex cycle will take even much longer to revive than expected. On the other hand, since the domestic consumption continues to grow, the industries involved in processing the commodities have witnessed growth in prices and profit margins, attributed partly to fact that there hasn't been an incremental capacity creation in these industries for almost past five years. This has allowed internal accruals to grow and at least some of the well managed companies in the sector have been able to deleverage themselves. The equity markets have also been benign to receive issuances from core / commodities-based industries (almost after a decade) and as a result, we have now some healthy balance sheets in these sectors which can take on incremental capacity creation as and when there are signs of faster growth.

The equity markets are at crossroads and a number of variables to fathom with in making investment decisions. The global issues including trade wars, interest rates, inflation and political polarization, which combined with domestic issues of banking crisis, capex cycle, election year and still some green shoots in consumerism, provide in overall an interesting period for picking stocks. It will have to be driven strongly by fundamentals and will truly separate men from boys in the fund management business. It will be an interesting watch on the flows into domestic mutual funds in their equity schemes and if that can help sustain the market. There is definitely a cheer for them in the debt schemes, courtesy the losing confidence in the health of the banking system. A big exodus from classic fixed deposit schemes into debt funds cannot be ruled out in the coming year. There will be more creativity in fixed income schemes and interesting trend will be the competing products for working capital financing in alternatives fund industry.

The distress M&A market is coming of age in India. The initial 12 cases filed with NCLT are nearing a completion and there is far more awareness in Indian corporates to address this opportunity. Besides the changes in certain regulations, many more ways to attract bidders into these processes will emerge. We have been in forefront of these developments and feel strongly about salvaging the value in these assets/ businesses for the good of everybody. There are much more serious social issues from liquidation and thus stakeholders with some proactiveness can avoid the avoidable.

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