



Newsletter

Informed Investing

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Introduction

Year 2017 has turned out to be an excellent year for many asset classes and commodities. The year saw investors see their equity investments return impressive returns. Large cap companies rewarded investors with handsome returns. Midcaps saw stellar returns as well. However the star this year was smallcaps which saw multifold increase in certain scrips.

However there were disappointments as well. Public sector banks continue to be plagued with NPAs. Pharma companies continue to underperform. Information technology companies continued to face headwinds in their earnings. This got reflected in their share price as well.

Fixed income instruments like fixed deposits have seen interest rates being cut multiple times and hovers around 6.25% - 7% for most of the banks. Real estate deals saw a slowdown due to multiple factors (including implementation of RERA).

Let us look at the first event that captured everyone's attention, i.e. Cryptocurrency.

Cryptocurrency

This year undoubtedly belonged to crypto currency. After a very long time we saw an investment opportunity (if you can bracket it as an investment vehicle) that multiplied investor's wealth multifold. With every passing day we saw the price of cryptocurrencies galloping ahead. Some of us watched from a distance as the drama unfolded and some participated in this amazing ride!

At the heart of it, cryptocurrencies are electronic contracts. These do not have any physical form factor. There are not regulated by any government or non-government agency. There is no central authority that issues these currencies. There is a central ledger called as a **Blockchain** which keeps a record of every transaction that has happened with a bit coin. So every bit coin has an entry in the Blockchain and every transaction made with that bitcoin is also recorded on the Blockchain.

So how exactly does cryptocurrency (aka bitcoin) work? Let us assume that you have somehow got yourself 10 bit coins to begin with. In order to store the bit coins you will have to create an account id (or a wallet) within the bitcoin network. So, when you create an account/wallet with bitcoin network, you are given a pair of a public key and a private key. Now you are set to start using bitcoins. Let us suppose that you have decided to transfer 1 Bitcoin to your friend (or a retailer). Now what you do is you broadcast a message saying that you are transferring 1 bit coin from your account to bob's account. When you are broadcasting the message you encrypt the message with your private key. This message is caught by many people who maintain their own individual ledgers. They decrypt your message using your public key to authenticate you. After authenticating you they will then update this entry into their ledger (or let us call it a block). Many of these individual ledger maintainers then go into a contest to solve a cryptographic problem posed to them by the bitcoin network. Whoever solves the problem first will be given a right to update the blockchain with their ledger/block. When they update the blockchain, the transfer of 1 bitcoin that you initiated, gets officially recorded into the blockchain and your transaction becomes legitimate. Now, how does the ledger maintainer get rewarded in return? The bitcoin network presents these ledger maintainers with a few bitcoins as a reward for their work in updating the blockchain (i.e. ledger) with the transactions done by different users. It is a win-win for all. Hence, even though Blockchain is a central ledger there is no single agency or a body that monitors/regulates this ledger. It is the individual ledger maintainers who keep updating this ledger.

People are ideally expected to use the cryptocurrency as a *medium of exchange* to exchange bitcoins between themselves or buy items using the bitcoins. However, due to the current insatiable desire to own cryptocurrencies, the price of these cryptocurrencies have seen an increase by many folds and people have started to hoard them as an asset instead of using it as a currency. Countries like China have banned bitcoins. In India both RBI and Finance ministry have issued warnings and cautioned people to beware of the risks while dealing with cryptocurrency.

The table below shows the market cap and the price of the top-5 cryptocurrencies as of 30th December 2017.

Cryptocurrency	Market Cap (\$ billion)	Price per Coin (\$)
Bitcoin	212	12,675
Ripple	92.297	2.38
Ethereum	67.368	696.93
Bitcoin Cash	40.378	2391.48
Cardano	15.581	0.6

When we look at the returns generated by the cryptocurrencies in 2017 the numbers are definitely eye popping. The table below shows the returns of the cryptocurrencies in 2017. Ripple takes the cake on the returns front.

Cryptocurrency	Returns in 2017 (%)
Bitcoin	1216%
Ethereum	8337%
Ripple	36291%
Litecoin	6227%
Monero	2421%

2018 shall be an equally interesting year to watch out as far as cryptocurrencies are concerned.

Initial Public Offerings

Year 2017 was an excellent year for Initial Public Offerings (IPOs). The year saw about 153 companies entering the primary market to absorb \$11.6 billion worth of money.

2017 was the year of IPOs from Insurance companies. Companies like General Insurance Corporation, The New India Assurance, HDFC Standard Life, SBI Life, ICICI Lombard General Insurance participated in the IPO. Other companies like AU Small Finance, Reliance Nippon, Cochin Shipyard, Avenue Supermarts, HUDCO, Godrej Agrovet, and India Energy Exchange were also seen raising money.

This year saw companies raising record amount of money from investors. The below table lists the money raised by some of the big names during IPO.

Company	Issue Size (Rs. Crores)	Gains/Loss (%) 22/12/2017
GIC India Ltd	11372	-9.01%
New India Assurance	9600	-18.21%
HDFC Standard Life	8695	20.18%
SBI Life	8400	-4.45
ICICI Lombard	5700	19.93%
AU Small Finance Bank	1912	29.07%
Reliance Nippon	1542	-3.59%
Cochin Shipyard	1468	25.90%
Avenue Supermarts	1326	90.72%

Source: AceEquity, Moneycontrol

From the table above we can see that the returns have been a mixed bag for the companies that managed to garner large pot of money from the IPO. So the next logical question is the set of winners from the IPOs. The table below lists the top companies that have performed exceedingly well post the IPO listing. I have limited myself to the companies that raised more than 100 crores from the primary market.

Company	Gains (%) 22/12/2017
Apex Frozen Foods	318%
Shankara Building Products	234%
PSP Projects	164%
Avenue Supermarts	90%
Tejas Networks	51%
Dixon Technologies	48%
SIS India Ltd.	38%
AU Small Finance Bank	29%
Cochin Shipyard	25%

Source: AceEquity, Moneycontrol

There have been some laggards as well. The table below lists some of them. However the laggards haven't lagged by a huge margin though.

Company	Losses (%) 22/12/2017
CL Educate	-27.91%
S Chand & Co.	-26.92%
The New India Assurance	-18.21%
Music Broadcast Ltd.	-10.05%
General Insurance Company	-9.01%
Godrej Agrovet	-8.66%
Khadim India Ltd.	-8.49%

Source: AceEquity, Moneycontrol

Markets in 2017

2017 was the best year for equity markets in India when compared to the last three years returns. The table below lists the returns for the different indices (till 22nd December 2017)

Index	Returns (%) as of 22/12/2017
Small Cap Index	59.64%
Mid Cap Index	48.13%
Large Cap Index	29.2%
Sensex	27.90%
Nifty	28.64%

Source: Moneycontrol

Among the large cap companies the top gainers in 2017 are as shown in the table below:

Company	Returns (%) as of 22/12/2017
Titan	157%
DLF	106%
Bajaj Finance	104%
Avenue Supermarts	90%
Bajaj Finserv	84%
Maruti Suzuki	77%

Source: Moneycontrol

Among the Midcap companies (on BSE), the table below lists the top 5 gainers in 2017

Company	Returns (%) as of 12/12/2017
Vakranjee	177%
Tata Global Beverages	141%
Jindal Steel and Power	134%
Dalmia Bharat	120%
Endurance Technologies	111%

Source: Business Today

The table below lists the performance of small caps.

Company	Returns (%) as of 12/12/2017
HEG	1190%
Indiabulls Ventures	1115%
Graphite India	795%

Source: Business Today

Performance of companies we track

Since 2016 we have been constantly tracking the business performance for Granules India as well as Ujjivan finance. Towards the end of 2016, PNB housing finance came out with an IPO. We have been tracking PNB Housing finance since Q4 FY17. Let us have a quick look at the performance of these three companies i.e.

- PNB Housing Finance
- Ujjivan Finance
- Granules India

PNB Housing Finance

PNB housing Finance is an NBFC specialized in Housing Finance. Started in 1988 as an extension of PNB Bank, the company went through a major transformation in 2011 and since then it has shown excellent performance with respect to P&L numbers.

The numbers for Q4 FY17, Q1 & Q2 FY18 are given below. I believe that the company has performed exceptionally well in 2017 on all fronts.

	Q4 FY17 Growth(%)	Q1 FY18 Growth(%)	Q2 FY18 Growth(%)
Revenue	37%	38%	36%
Expense	33%	37%	31%
PBT	54%	92%	54%
PAT	49%	93%	50%

The nearest competitor to PNB Housing is CanFin Homes. Below is the comparison of both the companies. Clearly PNB Housing is far ahead of its nearest competitor.

	Q3 FY17 Growth(%)		Q1 FY18 Growth(%)		Q2 FY18 Growth(%)	
	PNB	Canfin	PNB	Canfin	PNB	Canfin
Revenue	40%	23%	38%	19%	36%	15%
PBT	42%	38%	92%	41%	54%	30%
PAT	52%	41%	93%	43%	50%	36%

Ujjivan Finance

Ujjivan started as a Microfinance lender and over a period of time, has transformed itself into a Small Finance Bank. Currently its loanbook comprises of more than 90% Microfinance loans and rest of the loanbook is made up of MSE and Housing Loans. It aspires to see this ratio tilt to 50:50 in the coming few years.

The table below shows the P&L numbers for Ujjivan for the four quarters that we tracked this year. Needless to say, the year 2017 was a very bad year for the company. Demonetization seems to have shook the company to the core and even after four quarters it is still reeling under the impact of this event. In fact it is not just Ujjivan that is impacted, all the MFIs and SFBs seem to have been equally impacted.

I hope that 2018 brings some cheer to investors of Ujjivan Finance. From the results that we saw for Q2 FY18, I am quite confident that the worst days are over for the company.

	Q3 FY17 Growth(%)	Q4 FY17 Growth(%)	Q1 FY18 Growth(%)	Q2 FY18 Growth(%)
Revenue	38%	14%	9%	6%
Expense	58%	45%	113%	62%
PBT	-11%	-58%	-206%	-116%
PAT	-9	-64%	-205%	-116%

Granules India

Granules is a large scale generics manufacturer for select molecules. The company has close to 65% of its sales in Regulated Markets. Granules prides itself as being one of the top 5 manufacturers worldwide for some of its analgesic and antipyretic products.

The table below shows the performance of Granules for three quarters that we analyzed in 2017.

	Q3 FY17 Growth(%)	Q1 FY18 Growth(%)	Q2 FY18 Growth(%)
Revenue	11%	9%	9%
EBITDA	21%	7%	7%
PAT	34%	-5.1%	-1.2%

The P&L numbers clearly show that Granules had been struggling to maintain its past growth rates. Q1 and Q2 especially have been testing times for the company. The Omnichem JV is not performing up to the mark that the management was expecting. I hope to see some action in Granules in 2017 when the newly commissioned API and Oncology facilitates start contributing to the company's profits. We might see some serious action in 2019 as well.

Conclusion

2017 shall be remembered as the year when cryptocurrencies made their entry into the minds and hearts of investors with stupendous returns. The year shall also be remembered for the spate of IPOs in India. These IPOs led to mopping of funds by these companies. The IPOs were predominantly from Insurance companies. We also saw the successful listing of the revered retail company Avenue Supermarts (Dmart).

Among the companies that we track, PNB Housing has had an excellent year with respect to its P&L numbers. Ujjivan and Granules did not seem to have a good year. I hope to see all these three companies perform well in 2018.

In 2018 we will start tracking at least one additional company. I will introduce the company in January and then we shall start tracking the quarterly results of this company on a regular basis.

I would like to thank you all for your constant support and encouragement. Let us hope that the 2018 shall be as exciting and fulfilling as the year that went by.