KRIIS
PORTFOLIO PRIVATE LIMITED

3rd March, 2024

Dear Investor,

The market sprinted to new all-time highs on an extended week with Nifty at 22419, riding on the excellent GDP numbers. The third quarter's GDP growth of 8.4 per cent was far beyond expectations, as was the estimate of 7.6 per cent growth for the full year 2023-24. The reason for the market euphoria is that this extraordinary performance has come about at a time when global growth is sluggish, monetary policy has been tightened, policy rates are high, globalisation is on the back foot, and geopolitical conflicts are increasing.

All the indications are that growth will get several tailwinds. First, global growth is stabilising. Second, rural demand should get better if agriculture rebounds in 2024-25. Third, the much-awaited increase in corporate capex will happen soon. Fourth, inflation coming down should boost consumption. Finally, and most importantly, as Jayanth Varma of RBI said in the last MPC meeting, "there is no evidence at all that the economy is overheating'', which means that the upcycle is just beginning.

Budget – Focus on Fiscal Prudence

The recently presented interim Budget 2024 sends out a strong message on the government's commitment to a fiscal glide path to a 4.5% fiscal deficit by FY26. The government achieved two goals with one deficit reduction. It made the bond market happy, which translates to lower borrowing costs for companies, and a leg-up for banking profits. The endeavour to improve the quality of expenditure, with a preference to capex over revenue expenditure, warrants striking a fine balance between fiscal discipline and investing in structural enablers for long-term growth. The government's focus on maintaining this balance without budging on typical election-year spending compulsions is a positive step. The budget had enough measures to boost infrastructure with the focus on capex including the increased allocation on defence and railways. Overall, we believe that the government's focus on trading short-term growth spurt for meaningful improvement in medium-term growth prospects through lower inflation, lower interest rate and lower volatility in growth rates is a positive.

RBI is cautiously optimistic.

The RBI kept interest rates and stance unchanged as expected by a majority of the market participants.
The RBI's committee minutes are released, and it is obvious that members differ in their assessment of the economy. "Worried about food price uncertainties and believe the central bank should not let its guard down on inflation yet". The outlook for the Indian economy remains highly sensitive to inflation risks. "High inflation erodes purchasing power, especially for those least protected against the higher costs of essentials like food… It is only when inflation subsides and stays close to the target lastingly that policy restraint can be eased," was the RBI Governors' comment.

GDP accelerates in the third quarter, fiscal 2024 estimates revised upwards
the growth was due to strong capex by the government which supported the double-digit Gross Fixed the GDP growth for the third quarter came at a surprising 8.4%, exceeding expectations. The stellar growth has been led by the manufacturing sector (11.6% YoY), the construction sector (9.5% YoY) and the services sector. However, the muted growth of the agricultural sector was on anticipated lines due to weak monsoon reflecting a decline in kharif output and sluggish rabi sowing. As expected Capital Formation (GFCF) at 10.6% YoY.

Valuation
India is currently in a high growth phase among major developed and emerging economies. We anticipate continued optimism in the market and maintain a positive outlook and equities should remain strong. We continue to work on companies with high growth and reasonable valuations.

Thanks with Regards,

CA Rakesh Doshi
Principal Officer & Fund Manager
KRIIS – The Portfolio Management Company