1st April, 2024

Dear Investor,

The market reached a High at 22525 on Nifty during March, riding on the excellent GDP numbers announced. However, it could not sustain the levels being the March-end profit booking which happens every year. This sharp correction was taken by the midcaps and small-caps index due to their stretched valuations and took a good correction of 15-17% from their all-time high. The fall was more accentuated by the regulator's concern about the valuations.

However, the indications are that growth will get several tailwinds as said in our last report. I continue to repeat the factors. First, global growth is stabilising with RBI talking of revising the GDP to 8% for next year. Second, rural demand should get better if agriculture rebounds in 2024-25. Third, the much-awaited increase in corporate capex will happen soon post the Government capex is pegged at much higher levels in the recent budget. Fourth, inflation coming down should boost consumption.

Fed no more a worry…

Global markets cheered Fed chair Jay Powell's narrative in the March meeting, that stronger-than-expected economic growth in the US and a strong labour market would not stop the central bank from cutting rates in 2024. The central bank would stick to the dot-plot of three rate cuts in the year that would lower rates by 0.75 percentage points from the present 23-year high of 5.25-5.5 per cent. Sustained growth in the US economy, an improvement in Europe, a strong recovery in Japan, and China bottoming out turned investors bullish on global markets. As for Indian equity markets, while uncertainty about global flows may continue, the recovery in global growth also augurs well for Indian exporters exposed to discretionary demand in these markets. Adding fuel to the already heated equity markets was the India Flash Purchasing Managers Index for March 2024, which shows very strong growth in both manufacturing and services.

Defence sector provides huge export opportunities

India's defence sector a sunrise industry, has not only saved a huge foreign exchange on defence imports but has leveraged our armed forces with the most modern and sophisticated weapons systems at a fraction of the costs. Besides it has also created a massive export potential. Hindustan Aeronautics is looking to buildan export business in the aircraft and helicopter industry. Over the weekend, Hindustan Aeronautics signed contracts with the Government of Guyana, to supply two Hindustan-228 commuter aircraft. Cochin Shipyard received a Rs 500 crs order from a client in Europe taking its total export order book to Rs 2688 crs. The locally developed "Akash" weapon system is being pitched for export markets, the execution of which will be done by Bharat Dynamics and Bharat Electronics. Bharat Dynamics had an export order book of Rs 2580 crs. Both Bharat Dynamics and Bharat Electronics are trying to get more export orders for "Akash" weapon systems. There is also an opportunity created for private players to participate in the defence industry both as vendors and product suppliers.

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RBI's GDP for fiscal 2024 and 2025 estimates may be revised upwards

The GDP growth for the third quarter came at 8.4% was a surprise exceeding expectations. The stellar growth has been led by the manufacturing sector (11.6% yoy), construction sector (9.5% yoy) and 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 the growth was due to strong capex by the government which supported the double digit Gross Fixed Capital Formation (GFCF) at 10.6% yoy.

Valuation

As a process towards delivering sustainable performance, we have tried to include all growth themes in the portfolios so that whichever theme works in the market something in the portfolio is working for the clients and the investing journey is as smooth as possible. Over and above this we are running high conviction 20 stock portfolios with no high concentration to avoid risks associated with this strategy. The processes to rebalance the portfolio and recognize and implement stop losses are also well established. We believe that on account of the substantial earnings growth delta over the benchmark and favourable PEG ratios, even correcting for premium PE paid and costs, there is substantial alpha to be made in this construct.

Thank you and happy Investing.
May the Good Times Continue…

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company