KRIIS
PORTFOLIO PRIVATE LIMITED

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Dear Investor,

The Indian markets continued their upward trajectory, with the NSE benchmark index, Nifty50, reaching a historic high of 23,000 before closing just below this milestone. This surge was driven by Foreign Institutional Investors (FIIs) covering significant short positions, adding momentum to the market. The early part of May 2024, markets were volatile due to spike in the US bond yields, INR depreciation and spike in oil prices as a consequence of heightened geopolitical concerns especially Iran and Israel and some changes reported for Mauritius FPI taxation structure.

All eyes are on the election results on Tuesday, June 4. The markets have turned skittish, worrying whether, the BJP, will come back with a decent majority, a majority that will enable it to continue with its business-friendly policies. All the exit polls post the seven phases of election, have reiterated the NDA will get absolute majority and should improve the previous record.

The month saw FII's short position recently touched the first orange line, and from there, we see FIIs covering short position in the index futures as the Nifty index has made a new all-time high. We should probably see FIIs turning net buyers in the index futures post -election results, and that can lead to positive momentum in the Nifty index.

S&P Sovereign Rating Outlook
The upgrade of India's sovereign rating outlook by global ratings agency Standard & Poor's (S&P) to 'positive' from 'stable' came as a pleasant surprise. Although the agency did not change the rating itself from the present 'BBB-' and cites economic stability as the broad reason for the improved outlook.

RBI announced a bonanza for the Govt.
RBI transferred a record dividend of Rs 2.1 trillion to the government at a time when the Indian economy is one of the fastest growing in the world. In the RBI's own words in its annual report, "The outlook for the Indian economy in 2024-25 is brightening."The central bank's income rose 17 percent, mainly driven by its interest income that it gets through its lending operations to the government and the banking sector. It also gets interest income from investments into foreign securities (note the US treasury bond yields had surged in the past year) and from its domestic investments (not so much as Indian government bond yields eased).In short, the central bank's income was boosted because its peer, the US Federal Reserve, preferred to keep policy rates higher for longer.
What this means is better liquidity for infrastructure spending, steady interest rates, less borrowing by government and lower fiscal deficit.

Expectations after the new government formation

Election process is expected to be completed by June 2024 first week resulting in formation of a new government. Given the widespread expectations of return of the policy makers, the policy roadmap should be expected to remain on the set path. Few expectations are as under:

- Newer spaces under PLI: Government has been rolling out PLI benefits to catalyse investments into segments where the country may be suffering from competitive disadvantage with mixed results. Electronics PLIs seen as a success and items like cell phones, laptops, TVs, air-conditioning, etc. are now increasingly made in the country. For the success to continue after the PLI period is over, it is necessary to have component ecosystem also in the country and there are expectations of more incentives for spaces like semiconductor components, OSAT, Li batteries, etc where more players may be included.

- Defence Indigenisation should retain its focus given the geopolitical scenario and we expect more items to be put in the Make in India list.

- Opening up of space and satellite space to private sector is likely

- Focus on infrastructure Capex should continue. Make in India is a big push of the current government and while PLIs would help set up manufacturing infrastructure, infrastructure capex would help logistics within the country and outside. Investments in rail tracks, new higher speed railways, better and new roads should continue.

- Privatisation is expected to find focus again. BEML, Concor and IDBI bank were listed to be divested in the past. Similarly coal block auctions to enable rapid scale up in coal production should be expected.

Overall, the policy roadmap set over the past few years should continue.

Valuations

Given the sustained strong growth in economy, good macro outlook, and continuity of policy making we continue to think that valuations should sustain. Else, Corporate India should be able to positively surprise on the manufacturing side both in terms of volume growth and margins. Mid and small caps are the key beneficiaries of the new policy direction and are experiencing better growth in earnings after a long time vs the large cap peers. If the growth delta sustains in favour of mid and small caps, this space can sustain higher than long period valuations. Overall, we do believe that buying on dips should continue to be a good strategy.

Thank you. Happy Investing

Let us Hope for the Best,

Thanks with Regards,

CA Rakesh Doshi

Principal Officer & Fund Manager

KRIIS – The Portfolio Management Company