KRIIS
PORTFOLIO PRIVATE LIMITED

1st July, 2024

Dear Investor,

I hope this message find you doing well. The Indian stock market closed at an all-time high in June 2024 at 24040 after the initial volatility post the election results especially on June 4th/5th. The elections results threw a big surprise on the 4thJune. The BJP-led NDA has won the 2024 General elections with a full majority (296 out of 543 seats) for an unprecedented third consecutive term, albeit the numbers were well below the Exit Poll predictions of ~370 seats and the BJP's own ambitious target of 400+.The markets already voted that they think it now is continuity and while the outcome wasn't what the market expected. The market had baked in that there will be at least a simple majority of the ruling party and the National Democratic Alliance (NDA) will come back with 300 plus. So, this lower number of seats certainly spooked everyone and then when the realisation dawned that it's two very senior coalition partners in, Chandrababu Naidu and Nitish Kumar who are both probably towards the end of their careers and a little bit more likely to be statesmen like and looking for development of their states rather than what they can extract for themselves. Of course, things will be a little more contentious because the breakup of parliament is now not so one-sided and maybe in its wisdom that's what the Indian public wanted that there are some checks and balances while we still like what has happened, maybe that's what was desired.

**Implications for the market:**
Despite the reduced majority, we expect the policy agenda of Modi 3.0-Investment-led growth, Capex, Infrastructure creation, Manufacturing etc. to continue. We also expect some populist measures to address rural stress and lift sentiments at the margin, given the nature of the verdict. While the broad thrust on Capex and investment-led growth continues, the agenda going forward could also include measures for reviving consumption at the bottom-of-the-pyramid, some relief in taxation measures, and indeed the rationalization in the GST structure. The government does have some leeway with the higher-than-expected RBI dividend and recent moderation in Brent crude prices. However, we see the broader fiscal discipline to be still maintained and long-term priorities, viz., thrust on renewable energy, investments in power, PLI, defence indigenisation etc., to continue. In her address to Parliament, President Murmu recently has promised that "many historic steps will also be seen in this budget" and that "The pace of reforms will be further accelerated." Given the current state of the markets, it is imperative that the finance minister delivers on that promise in the forthcoming budget.

**Structural transformation is the key**

It is this structural transformation that has enabled the Indian economy to remain so strong despite a sluggish global economy, supply chain disruptions, tightening global central banks and geopolitical pressures. Most importantly, there has been a massive structural shift in the global economy, with China's growth faltering and multinationals shifting supply chains to other, friendlier, nations. India has been a beneficiary of this change, and it is also one of the Asian countries least exposed to the Chinese demand slowdown. India has taken over from China as Asia's new growth engine. Given this business friendly change the valuations are definitely going to trade higher than the historical average.

**Inclusion of bond another booster**

Let's not forget another big change—the inclusion of Indian government bonds in international indices. Expect index and strategic allocations could potentially result in USD $ 100 billion inflows over the next 3-5 years. That, together with fiscal restraint, makes a strong case for long term yields to decline over the next 1-2 years. That in turn will provide support to equities, while the inflows will keep the rupee steady and add to the attraction of Indian markets for foreign investors.

**Valuations**

Given the sustained strong growth in economy, good macro outlook, and continuity of policy making post the elections we continue to think that valuations should sustain. Mid and small caps are the key beneficiaries of the new policy direction and are experiencing better growth in earnings. Identifying and investing in good quality businesses at an acceptable valuation, and a long-term philosophy are the core of our approach to investments. We have always been aware of the liquidity risk in mid- and small-cap funds and, hence, these products have been regularly assessed for their risk profile, well before it became mandatory.

Thank you. Happy Investing

**Thanks with Regards,**

**CA Rakesh Doshi**

**Principal Officer & Fund Manager**

**KRIIS – The Portfolio Management Company**