KRIIS
The Portfolio Management Company

KRIIS PMS

October 2026 Investor Letter

Market Corrections: Positioning for the Next Phase of Wealth Creation

Dear Investor,

As we celebrate the auspicious occasion of Diwali, we extend our warmest wishes to you and your family. May this festival of lights bring happiness, prosperity, good health and new beginnings. We sincerely thank you for your continued trust and confidence in KRIIS PMS.

Wishing you and your family a very Happy Diwali and a prosperous New Year!

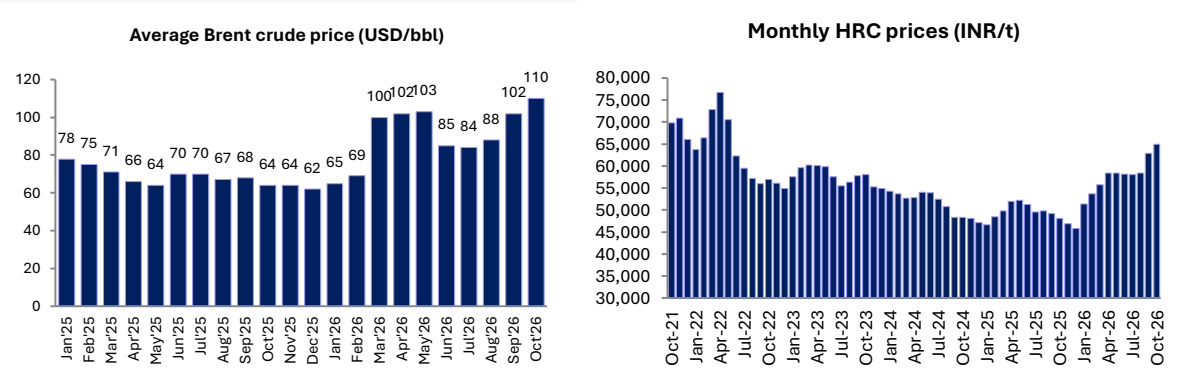
October was a month of recovery for Indian equities, although market participation remained selective. Benchmark indices delivered positive returns, led by Technology stocks and relatively resilient large-cap companies on resilient earnings and hopes of capital-gains tax relief, though a surge in crude prices due to lingering Middle East tensions capped gains. However, continued foreign selling and broader market weakness suggested that investor confidence had not yet returned across the entire equity market. The Nifty 50 gained 1.91%, while the BSE Sensex advanced 2.73% during the month. The Nifty 50 stands at 23,053.10, up 1.91% from the close on 30 September 2026.

Elevated crude oil prices, geopolitical tensions, concerns around global monetary policy and currency volatility continued to weigh on investor confidence. Adding to these pressures, the unwinding of leveraged positions through the Margin Trading Facility (MTF) intensified selling pressure, particularly across smaller stocks. The average MTF book declined to approximately ₹1.51 lakh crore in October from ₹1.56 lakh crore in September, indicating a gradual reduction in market leverage. This deleveraging contributed to near-term selling pressure and amplified volatility across the broader market.

Volatility in Recent Times Across Markets

- Every market, be it equity, financial, commodities, metals, yields and interest rates, logistical costs or insurance costs, remained in the doldrums with a lot of uncertainty and was thereby volatile.
- Bond yields touched a new high of 5.5% post the Fed rate hike, causing nervousness in bond markets.
- Gold and silver prices tumbled 10–20% on inflation expectations, a weakening dollar and gold selling by Russia to fund its deficits.
- Crude prices rose in late October on fears of renewed US military action against Iran, tanker incidents around the Strait of Hormuz and Ukrainian strikes on a Russian refinery. Brent crude prices increased approximately 15.71% during October. Brent crude ended October at $113.43 a barrel, up from $98.03 on 30 September. It reached a four-year high of $116.72 on 23 October.

Crude Oil and Inflation Remain Key Risks



Higher crude prices can have a meaningful impact on the Indian economy through several channels, including:

Inflation → Current Account Deficit → INR → Fiscal Balance → Corporate Margins

The impact, however, is not uniform across sectors.

Higher commodity prices can benefit upstream commodity producers, while companies that consume steel, aluminium, energy or other commodities as inputs could face margin pressure unless they have sufficient pricing power.

We therefore continue to focus on businesses with strong competitive positioning, pricing power and balance-sheet strength.

Monetary Policy and Interest Rates

The Reserve Bank of India's October policy decision was an important development for domestic financial markets. The RBI increased the repo rate by 25 basis points to 5.50%, reflecting concerns around inflationary pressures. Higher interest rates can affect credit growth, housing demand, discretionary consumption and corporate borrowing costs. The banking sector's medium-term outlook will therefore depend on the balance between credit growth, funding costs, asset quality and net interest margins. While this may tighten liquidity conditions, the rate-hike cycle is likely to remain shallow, as broad-based inflationary pressure has yet to emerge.

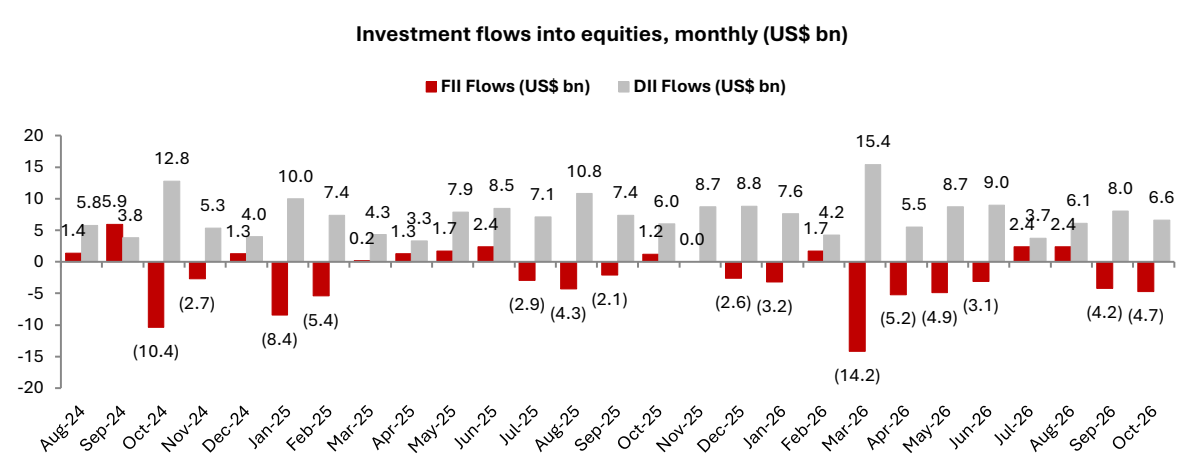
Institutional Flows: Domestic Investors Provide Market Support

Foreign institutional investors continued to remain net sellers during October, with approximate net outflows of ₹45,162 crore. In contrast, domestic institutional investors remained strong buyers, with net inflows of approximately ₹62,220 crore.

Domestic institutional participation has played an important role in supporting Indian equity markets amid sustained foreign selling.

Going forward, changes in global liquidity, currency movements and foreign investor allocation towards emerging markets will remain important factors influencing market direction.

CHART- FII AND DII



India on the Rise: A Structural Growth Story

We believe it is important to distinguish between near-term market challenges and India's long-term economic opportunity. Despite ongoing geopolitical headwinds, energy price volatility and bouts of macro uncertainty, India's economy and corporates have demonstrated resilience during the extreme volatility seen in the past two years. The 7.0% GDP print in 2QFY27, robust GST collections, healthy credit growth, strong auto volumes, and the steady recovery in corporate earnings from the FY25 lows indicate underlying economic strength. A favourable policy environment, active RBI liquidity management and steady DII flows provide further support. While a consistent rise in global yields could still trigger volatility and FII outflows, the relatively contained domestic rate cycle, strong liquidity and improving earnings provide buffers against a sharp rate-driven de-rating in Indian equities.

India is gradually transitioning from a predominantly consumption-led growth model towards a broader manufacturing-, investment- and productivity-driven economy. Private firms are committing to new projects led by power, data centres and metals. “Infrastructure continued to dominate the investment landscape, led by the power sector.” India's next industrial revolution is being built on an already significant manufacturing base, and India is already a major global manufacturer in select emerging sectors like pharma, mobile phones and solar modules.

Where the Next Growth Engines Lie

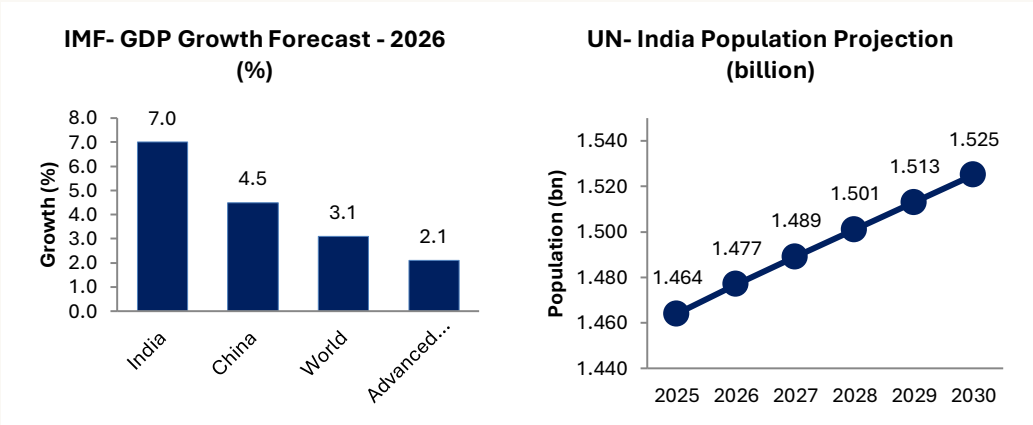
Emerging manufacturing is gaining momentum through supply-chain diversification, the China+1 strategy and supportive government policies. **Defence & aerospace** are benefiting from indigenisation, rising defence expenditure and increasing export opportunities.

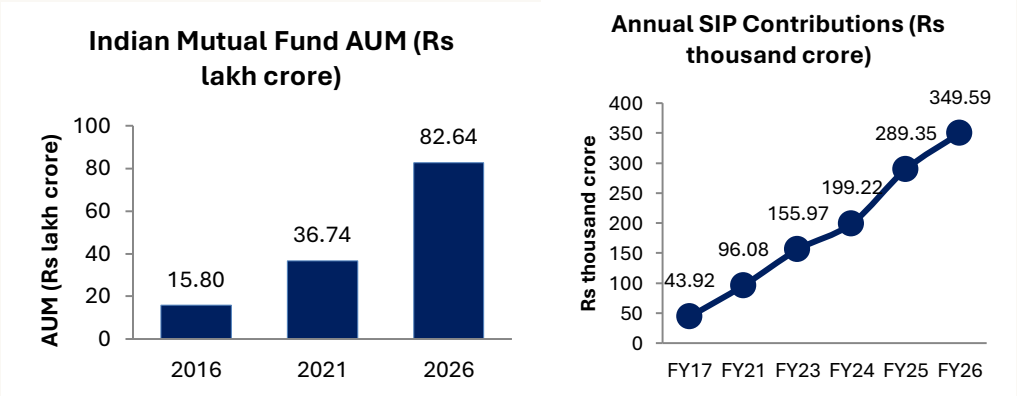
The transition towards **electric mobility is creating** significant growth opportunities across EVs and auto ancillaries, while electronics and semiconductors are emerging as critical drivers of domestic manufacturing and technological self-reliance.

In healthcare and CDMO, rising global outsourcing, increasing healthcare demand and India's manufacturing capabilities offer attractive growth prospects. Specialty chemicals and industrial technology stand to benefit from import substitution, process innovation, automation and global supply-chain realignment. **Meanwhile, energy transition and digital infrastructure** are creating new investment opportunities across power, renewable energy, storage, data centres and connectivity.

Rising incomes, urbanisation, increasing per-capita consumption and the financialisation of household savings are further strengthening domestic demand and capital markets. Collectively, these structural drivers create a broad opportunity set for sustained corporate earnings growth, capital formation and long-term value creation.

For global investors, India represents not just a near-term market opportunity, but an opportunity to participate in a multi-year economic transformation





Outlook and Valuations

1. Valuation is at a multi-year low – 18% discount to average

Nifty is currently trading at 17.2x 12-month forward P/E, vs its 10-year average of 20.9x. This is an 18% discount to the Long Period Average. This is the same level we saw in the COVID crash of 2020. From the Sep'24 peak, valuations have cooled sharply: Nifty-50: 24.8x → 17.2x (-31%), Midcap-150: 35.6x → 22.8x (-36%) and Smallcap-250: 25.0x → 23.2x (-7%).

2. A unique situation in history

For the first time ever, the Indian Economy is doing well BUT Markets are at a 52-week low and giving negative returns in the last 2 years. We remain the Fastest Growing Economy, but the Worst Performing Stock Market in the world. This gap will not last long.

3. All headwinds are already priced in

The market has already absorbed everything together: Higher Crude Oil prices, Depreciating INR, Rising Bond Yields, Super El Nino. Despite all this, our earnings engine is intact.

4. Earnings have started to show – 20-25% growth expected

This is a broad-based recovery – for the first time in years, almost every sector is expected to grow.

Key contributors: Cement (+35%), EMS (+34%), Retail (+22%), Consumer Durables (+20%). Auto volumes up >30%, Bank credit growth at decade high. Markets are trading at PEG < 1 – meaning you are paying less than earnings growth. Very attractive.

5. What can trigger the sharp reversal?

US Bond Yield normally peaks at 5.3% to 5.5% and appears to be in an overbought zone. Similarly, USDINR also looks to be peaking at these levels. If there is any positive news on the war front and Crude cools off to $60, we will see a massive correction in Bond Yields and appreciation in INR post the US midterm. That will be a powerful trigger for markets to re-rate sharply from these depressed valuations.

Our assessment is that Four key developments could drive a meaningful recovery in Indian equity markets: **policy-led recovery through potential LTCG/STCG tax rationalisation**; liquidity-led recovery supported by FII inflows and rupee stability; and earnings-led recovery driven by FY27–FY28 earnings upgrades, **revival in private-sector capex and improving** domestic consumption. Together, these factors could provide the foundation for a sustained recovery in Indian equities.

Our Investment Approach: Quality Before Momentum

Market corrections often create two types of opportunities.

The first is a business whose fundamentals have deteriorated and whose valuation is falling for a good reason.

The second is a fundamentally strong business where the share price has corrected faster than the underlying earnings power of the company.

Our job is to distinguish between the two.

At KRIIS, our research process therefore goes beyond quarterly financial statements. We spend significant time understanding businesses through **management interactions, channel checks, plant visits and on-ground research**.

Looking Ahead

We remain constructive on India's long-term structural growth story, although near-term market movements may remain volatile.The October market performance reinforces an important investment lesson: benchmark recovery does not necessarily indicate broad-based market strength.

India continues to benefit from several multi-year themes including:

Emerging Manufacturing | Defence & Aerospace | EV & Auto Ancillaries | Electronics & Semiconductors | Healthcare & CDMO | Specialty Chemicals | Industrial Technology | Energy Transition | Digital Infrastructure | Financialisation

However, we remain selective.

The recent market correction reminds us that **a good business is not always a good investment at any price**. Our objective is therefore to combine business quality with valuation

discipline.We will continue to use periods of volatility to reassess our portfolio companies, challenge our investment theses and selectively deploy capital where the **risk-reward equation has become more attractive**.

> ***In worst of times, we get the best of opportunity. This is the time to double up investments and accumulate quality. Don't miss this opportunity.***

Thank you for your continued trust in KRIIS PMS.

KRIIS PMS

Identifying Emerging Businesses Before They Become Mainstream

Thanks with Regards,

CA Rakesh Doshi

PRINCIPAL OFFICER & FUND MANAGER

KRIIS – THE PORTFOLIO MANAGEMENT COMPANY